The political economy of opera:
a study of the relationship between artistic value and financial value in the current era

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ABSTRACT

This study has been made necessary by the lack of an adequate political economy of opera, and related philosophical constructs, to take opera successfully into the twenty-first century. Despite a history of crises and failure within the UK subsidized opera sector, scant attention has been paid to the theory of value in opera: a situation not aided by the scarcity and inconsistency of available data pertaining to the financial performance of opera companies and the sector as a whole.

The study provides a fresh theoretical approach which will allow those parties with an interest in the artistic value and financial value issues posed by opera to find a common forum. The influence of relevant factors in the environment are discussed, including the trend towards accountability, and the emergence of communitarianist thought in the political agenda. The concept of the transformation of value as the characteristic process of opera is introduced. It is also shown that artistic value is the outcome of transactions between buyers and sellers; that it is irrevocably a market concept. In the context of a democratic market economy there is need, therefore, to widen participation in the artistic value agenda by incorporating the general public within an inclusive artistic value franchise.

The history and theory of value is examined with reference to current aesthetic thought (Adorno's version of commodity fetishism, and postmodernism), the economic writings of Marx and Smith, and current explicit and implicit models of value (including the Baumol and Bowen productivity lag model, the Keynesian powerhouse model, public service provision, and the merit good theory).

A methodology to gather consistent and reliable data from the mandatory annual financial reports of individual opera companies was developed. The difficulties associated with construction of the resultant data set revealed a lack of accountability within the sector. A long-run parametric study of the UK subsidized opera sector (1976-95) was then conducted.

Results reveal an inexorable rise in the real cost of opera, and demonstrate, for the first time, the poor long-run performance of the UK subsidized opera sector. Results also confirm the existence of inequities (distributive injustices) in current subsidy policy, the presence of a controlling partial interest within the artistic value franchise (an artocracy), and treatment of artistic value as an exogenous given.

It is concluded that these results are an inevitable outcome of the current opera infrastructure, and that there has been inadequate examination and consideration of alternative operational and infrastructural models, some of which are discussed here. Overall, it is concluded that the current, static, opera infrastructure precludes substantive artistic innovation, and that the museum element in the artform resides not in its repertoire, but in its infrastructure.

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ABBREVIATIONS

ENO	English National Opera
BRB	Birmingham Royal Ballet
GFO	Glyndebourne Festival Opera
GP	Glyndebourne Productions
GTO	Glyndebourne Touring Opera
ON	Opera North
OR	Opera Restor'd
RB	Royal Ballet
RO	Royal Opera
ROH	Royal Opera House, Covent Garden
SO	Scottish Opera
SWRB	Sadler's Wells Royal Ballet
WNO	Welsh National Opera

ACE	Arts Council of England
ACGB	Arts Council of Great Britain
AVG FTE	Average full-time equivalents (employees)
EMPS	Employees (e.g. EMP/PERF : employees per performance)
FOH	Front of house
GLC	Greater London Council
LA	Local Authority
PERFS	Performances
PRODS	Productions
P/L	Profit and loss
SAC	Scottish Arts Council
T/O, TO	Turnover (e.g. TO/PERF : turnover per performance)
VAT	Value Added Tax
WAC	Welsh Arts Council

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The staff of the Faculty of Music without whose kindly help in administrative matters many a researcher would become hopelessly lost.

If it cost a million dollars, I'm sure it was worth it.

[Mary Garden, on her year as director of the Chicago Grand Opera 1921-22]

(Garden and Biancolli 1952:167)

1. INTRODUCTION

1.1 Background

Overview

All *artistic value*, in the current era, is created within the context of a money economy. This is an inescapable fact.

Indeed, no matter its form, or commercial status, all artistic production impinges upon a world of political and economic relations. Even the proverbial garret-bound artist who chooses to produce art for her own private consumption, and not for sale or trade, must possess the means, specifically, the financial means to support her work. Her isolation from the environment can never be complete, her art can never be autonomous.

Taken to its logical extreme, no art is without cost and, therefore, no art is without value. This must be so in a money economy, since all costs may be understood as values, and all values, as costs. The critical and interesting question, however, concerns the nature of the relationship which pertains between these two elements; between cost and value in art.

What, then, is *artistic value*? What is its nature, how is it created, who controls its creation, and what, most importantly, is its relationship to *financial value*? Neither philosophy nor aesthetics can help us directly here, for these are essentially practical questions; questions which demand answers based on observation of the real world; questions which demand practical analysis, and which carry political, economic, and indeed, moral implications for society as a whole.

To this extent, then, we are all members of an *artistic value* franchise[1]. If the concept of *artistic value* is to have any meaning, any value for the society which bears the cost of its production (via public subsidy), it must not merely be imposed in the name of the public interest, but should be actively directed by franchisees. The *artistic value* agenda should, indeed, reflect the will of franchise; and in the context of modern democratic market society, nothing less, it seems, may logically suffice.

In this introductory chapter, then, we set the context for our study of the relationship between *artistic value* and *financial value* in opera. We begin by describing the problem for study, and demonstrating the need for a political economy of opera. We then outline those changes in the political and economic environment which have a direct bearing upon the future of opera. In so doing, we place opera and *artistic value* firmly within the context of the market economy of the current era.

The need for a political economy of opera

There exists a range of parties including artists, arts administrators, musicologists, aestheticians, cultural economists, politicians, public arts agencies, sponsor companies, trusts, private donors, audiences, friends' organisations, the taxpaying public, critics, and the media, who each concern themselves in some way with the particular *artistic value* and *financial value* issues presented by opera. Each of these parties has developed its own set of models pertaining to value in opera. These models, which can be explicit or implicit, function either as a form of internal definition of opera for the party concerned (e.g. the commodification arguments of modernist and postmodernist aesthetic theory) or as a means by which the party concerned can put forward one particular case for the public subsidization of opera (e.g. the *public service provision* model used by government agencies responsible for distributing subsidy, and by opera companies seeking subsidization).

However, these models, whilst embedded in current thinking about opera, often conflict with each other either in assumptions or aims. Some models, as we shall demonstrate, stress *financial value* outcomes whilst holding *artistic value* constant (e.g. *productivity lag* model, *public service provision* model), whilst others stress *artistic value* outcomes either without regard for *financial value* issues or with an antagonistic view of the relationship between the two types of value (e.g. Adorno's modernist aesthetics, and postmodernist philosophy). Some models, particularly those designed to assist in the setting of arts policy criteria, are based on democratic principles (e.g. the egalitarian assumptions of the *merit good* model); others are based on what we might term *artocratic* principles (e.g. those aesthetic schema which legitimise only cognitive or knowledge based approaches to *artistic value* judgement and which discount public opinion as *uninformed* and therefore invalid).

Also, current models pertaining to value in opera tend, in the majority of cases, to be predicated on the assumption of a static environment. With the notable exception of Adorno's commodification argument (discussed in chapter 4), most models treat opera in isolation to changes which may be occurring in the environment, and within the artform itself. Such static models are, as we shall demonstrate, inadequate in the context of a changing or dynamic environment, not only because they ignore the political and economic forces which are currently acting upon opera, but because they impede substantive artistic innovation in the artform itself.

In order to set the context for our study, then, we begin by conducting a brief survey of the environment.

1.2 The changing environment of opera

> *...the traditional economic, social and political construct of support by the government for the cultural sector in Europe is coming to an end...*
> (Abruzzo (AT Kierney Inc.) 1997:30).

The sources and implications of change

The political and economic climate in which opera exists is changing in a fundamental way. This change is being driven by two factors: in Europe and America by the trend towards lower tax regimes, and especially in the UK, by an increasing emphasis on accountability in the provision of services. These factors are together exerting pressure on both levels and utility of public spending.

Put in historical context, these changes can be viewed, at least in part, as a function of the increasing globalization of trade. Briefly, the more markets become international in nature, the less national economies can be controlled in isolation.

With the abolition of foreign exchange controls in the UK in 1979, for instance, the UK economy became particularly vulnerable to external economic influences and competitive swings. The need to control productivity and inflationary differentials vis a vis trading partners became at once more important and more difficult.

Over the last twenty years, the need to raise productivity as a way of controlling cost-push inflation (which can be imported via raw materials price increases) has spurred the development of supply-side measures in public sector management. Supply-side measures are based on the central assumption that tax cuts promote economic growth, and that because there is growth, overall tax revenues will nevertheless increase (for discussion see Stockman 1986).

Now supply-side economic policy, developed in the USA in the early 1980s (hence

Reaganomics), has, to a certain extent, been adopted by the present Clinton administration (DRN 01-97). Today, and particularly in Europe, however, the term has come to be used in a general sense to refer to any set of measures which aim to make the supply of factors in an economy (e.g. labour) less constrained (see e.g. West 1987:87). Thus, examples of supply-side measures include: cutting taxation, cutting or controlling the growth of public spending, privatization programmes, and managerial initiatives designed to shift power from producers to consumers (thus aiming to increase the efficiency, quality and accountability of public services).

In terms of opera, it is important to view these changes not solely as the product of political ideology (it is not sufficient to claim that political ideology is always at the root of an artform's demise), but as the result of necessary economic policy responses to international financial pressures. This is important because failure to understand the causes or sources of observable change, impairs our ability to make reliable predictions about change and the implications of change in the future: we become reactive rather than proactive.

Moreover, it is important to understand that change in the environment is not significant in itself. We cannot say that a changing political and economic climate is necessarily good or necessarily bad for opera. In order to understand the implications of such change, we need to understand the relationship between opera and its environment: an issue which is explored in depth in the research chapters of this study.

For the moment, let us begin by characterising in more detail, those changes in the political and economic environment which affect, or are likely to affect opera.

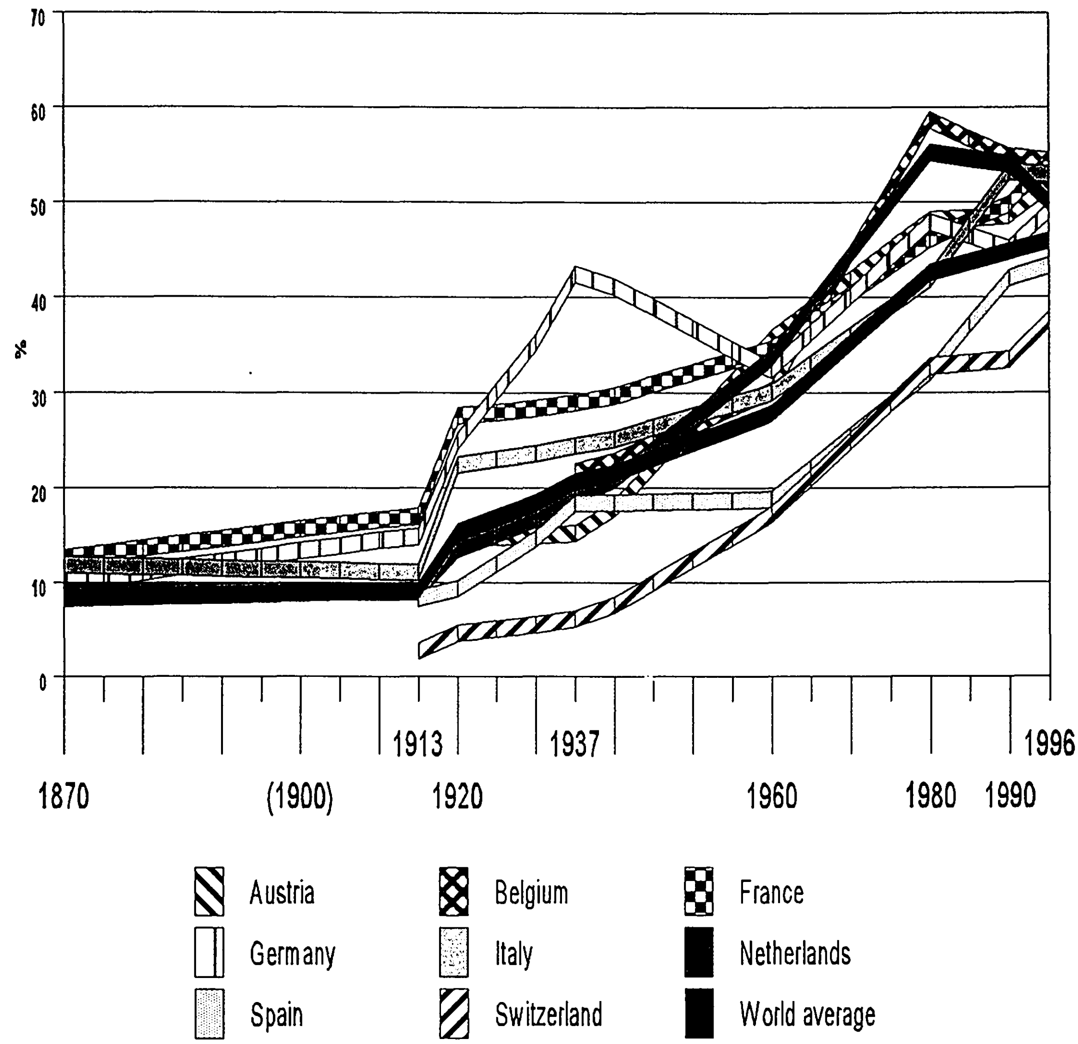
The opera economies

In broad overview, government spending as a proportion of national income has been increasing steadily throughout the industrialised countries of the world. Figures 1-1 and

1-2 illustrate the rising trend of government spending as a percentage of GDP (Gross Domestic Product) in continental Europe (Figure 1-1) and other selected major economies (Figure 1-2). However, looking at the total average for all seventeen countries in the sample, the trendline can be seen to flatten from 1980 until the last data point at 1996. This is because many European governments have reduced public spending in order to satisfy the fiscal policy criterion specified for membership of Economic Monetary Union (discussed below). In some countries, pressure to reduce taxes in order to avoid structural deficits (i.e. persistently spending more than citizens can be persuaded to pay in taxes) has also acted to slow the trend (for discussion see E 20-09-97:11).

This is important, for of all the countries in the sample, only Norway has a net public sector asset as opposed to net debt. In fact, the net indebtedness of governments in most OECD[2] countries has increased since 1992. The situation is particularly pointed in both Belgium and Italy, where net public debt is larger than respective national income (E 02-97:139).

Given the above factors, it is unlikely that government spending in the opera economies will continue to rise at historical rates. For the arts, as a non-essential service or non-essential component of this spending, the prognosis is therefore bad.

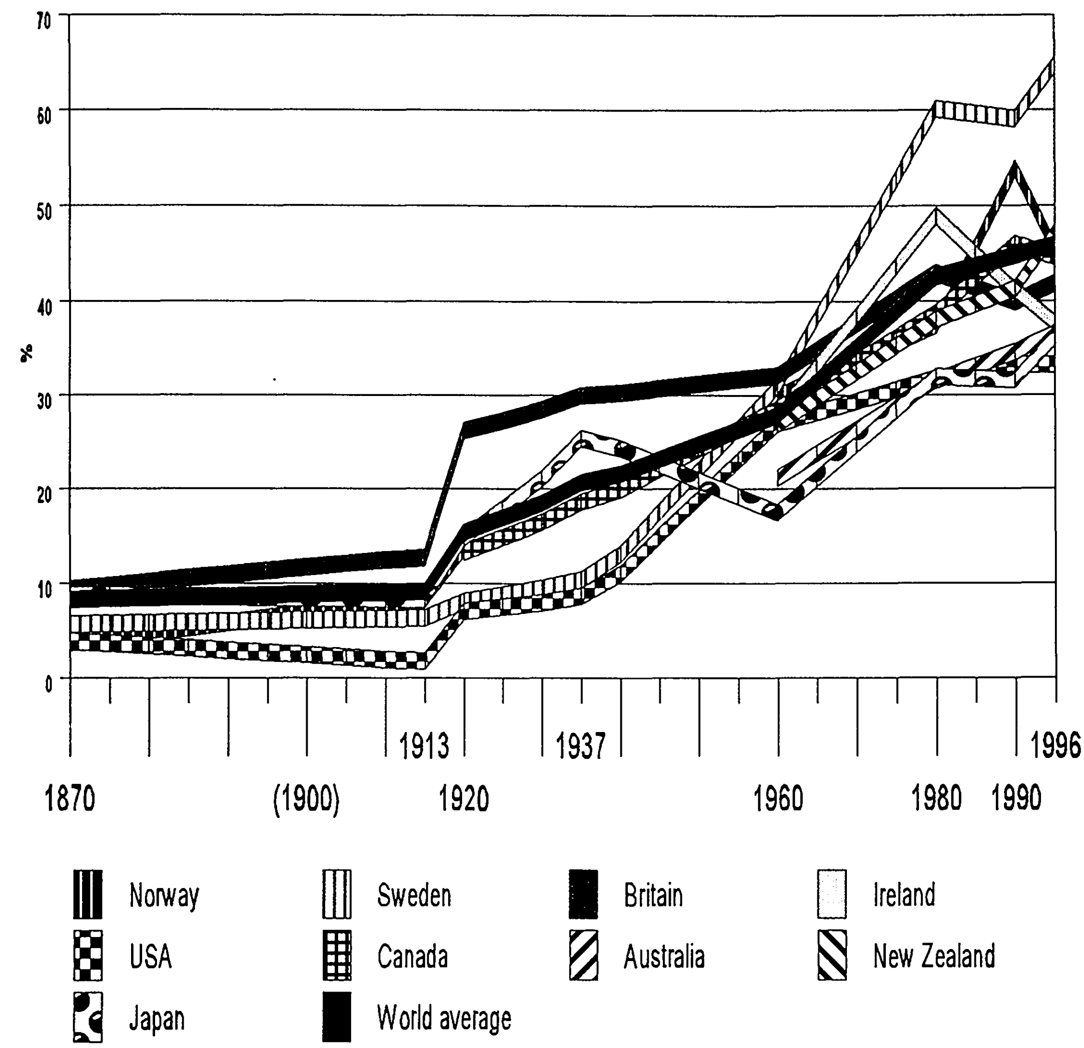


Source : Economist (20-09-97:11) / International Monetary Fund

***Figure 1-1** : Government spending as % of GDP (Continental Europe)*

Now in Europe, pressure to meet the objectives of Economic and Monetary Union (EMU, launched January 1999) has forced participant countries (the Euro-11, including France, Germany, Italy, Finland and Spain) and potential participant countries (the UK, Sweden, Denmark, and Greece) to reduce public deficits as a share of Gross Domestic Product[3]. In this context, privatization programmes, because they act to reduce public deficits have been a feature of the UK, French and Italian economies (EM 1997a) as well as East European economies such as Poland and the Czech Republic. In Italy, this has had a direct effect on opera: partial privatization of the 13 *ente-lirici* or state run opera companies (totalling 6000 employees) began in 1995 with emergency deficit grants to Rome Opera and La Scala, and with the submission of proposals to parliament for the rationalisation of state intervention in the performing arts (se E 08-95:82, Degenhardt 1996a:23 and 1998).

Moreover, the need for fiscal discipline in EMU member, and potential EMU member states, will continue as the European Central Bank (which from 1999 must impose a unified monetary policy) attempts to optimize policy across potentially divergent economies. Slow growth in France, for instance, and in also in Germany (due to the aftershock of incorporating the inefficient command economy of former East Germany) is hampering this *convergence* process. Interestingly, Germany, given ongoing financial malaise in its opera sector, continues to debate the idea of opera company mergers as a way of reducing inefficiency (see, for instance Assmann 1999:5).



Source : Economist (20-09-97:11) / International Monetary Fund

***Figure 1-2** : Government spending as % of GDP (Rest of World)*

The Scandinavian countries (with the exception of Norway, a non European Union state enjoying oil resource driven growth) are also not immune from the pressures of international financial markets. Sweden, traditionally a high public spending economy must conform to the Maastricht-related goal of limiting the public deficit share of GDP to within 3% should it wish to join EMU at a later date. Although it has used taxation revenue to build up an extensive social welfare system, Sweden now aims at an overall reduction of state costs in GDP, so that social spending has come under significant pressure (EIU 1996-97a:11). Often regarded as a model of cultural enlightenment, Sweden has now begun to cut arts funding (Abruzzo 1997:30). Moreover, in Denmark, a climate of uncertainty has prevailed over state funding for the arts in recent years (see, for instance, Reiss 1996b:30).

Indeed throughout Europe public deficit reduction strategies have introduced fundamental change in the socio-political environment of individual nation states. The traditional priority given in many European countries to core public services such as welfare programmes, public pension schemes and healthcare is no longer axiomatic. There have been many cuts and alterations: Sweden (unemployment benefit, new restrictive policy after 1998), Greece (closure of state companies which otherwise require heavy capital investment), Denmark (cuts to public pensions and healthcare), Italy (public pension restrictions), Germany (deferral of pension expenditure by raising the retirement age for women), Spain (industry privatisations, new healthcare charges), and France (public pension restrictions, healthcare cuts) (for background see E 09-96:44). In the UK, planned major reform of the pension system was announced in 1997 by the former Conservative government. Although not instituted, it is significant that the current Labour administration has introduced some reforms of its own.

In East Europe, Hungary has limited the scope of its state funding for the arts (following radical austerity measures introduced in 1995 to reduce a budget deficit). Although the Hungarian National Opera House and Ballet still receives state funds, there are plans to introduce efficiency measures. Specifically, it is thought that a reduction of labour overhead will be instituted: the Hungarian National Opera House and Ballet employs approximately 1350 people and maintains two house orchestras (Thorogood 1996:11). Indeed, Hungary, still adjusting to a market economy, shows evidence of applying supply-side economic measures to the arts (e.g. plans to put the administration function of the Bartok / New Music Festival out to tender; ibid Thorogood 1996)[4].

It is also worth noting that countries intending to apply for European Union (EU) membership are required to conform to a number of political and economic entry criteria (as set by the European Union Copenhagen Summit in 1993). These criteria include: guarantees of democracy (which has implications for the operation of government in an open and accountable way), a functioning market economy, the capacity to cope with the Single Market (which requires implementation of a sales tax or Value Added Tax system) and acceptance of the goal of Economic Monetary Union, which, as we have seen, requires the exercise of fiscal restraint to control inflation and the level of public spending (for background see E 07-97:35). It is significant that the list of intending applicants to the EU includes central and eastern European states such as Estonia and Bulgaria, states which currently provide the opera sector in the UK with a source of low cost artistic input (principally singers). Interestingly, given continued enlargement of the EU, this source will effectively disappear once countries such as these, as well as the Czech Republic, Poland, Slovenia and Hungary, begin to conform to European Union tax laws. This may have interesting consequences for native talent in the UK.

In the USA, during the 1990s, there has been major debate at Congress level over government funding of the arts. *Zeroing out* (i.e. phasing out) all government funding of the arts has been considered by conservative members of the legislature, for instance (Gattuso 1996:13). In addition, government agencies as well as private foundations have increasingly begun to hypothecate funds i.e. to restrict their grants for specific purposes and to redirect funding away from general revenue support (Scheff and Kotler 1996:28). Federal funding via the National Endowment for the Arts (NEA), for instance, was cut by approximately 40% from US$162.4 million in 1995 to US$99.5 million in 1996 and although plans to phase it out completely by 1997/98 have been dropped, the 1998 and 1999 NEA budget figures have remained frozen at US$98.6 million (approximately £66 million) (see Reiss 1995:42, and Brookes 1999:7). This comes in line with an overall aim to reduce the federal fiscal deficit to around 0.5% by the year 2003 (Barrell, Morgan and Pain 1996), so the pressure on public funding of the arts by state and local administrations will continue in the long-term, not least because all state arts councils rely on NEA funding to supplement legislative appropriations

(Reiss 1996a:54).

Public sector reforms, following the UK paradigm, have also been taking place within Australia and New Zealand (for discussion see Walsh 1995:64). In Australia, for instance, the merger of Australian Opera with Victorian State Opera in 1997 (to create Opera Australia) was carried out to remove inefficiency in the public provision of opera. The merger was designed to alleviate the problem of overprovision, since the two original companies had operated in overlapping geographical markets; both with box office losses (IAM 11-96:4 and IAM 02-97c:34). This action is again symptomatic of supply-side economic policy.

In East Asia, where Western opera has been imported alongside the industrial technologies used by the West, there is increasing cosmopolitanism of culture. In Singapore, for instance, a major performing arts centre project includes a lyric theatre of 2000 seat capacity (Cutts 1994:45). There is also interest in opera in Seoul, South Korea (Laurie 1994:11) and in Hanoi and Ho Chi Minh City, Vietnam, where renovations to two opera houses are currently underway (IAM 10-97:29, and Murray 1999).

However, as the economies of East Asia mature and growth tends to slow, there will be need for structural reforms including significant readjustments to monetary and fiscal policy in like manner to the West (for discussion see E 03-97:18). Indeed, these economies are no less immune, no less open, to the economic downturns of global trade and financial markets, as the Asian crisis of 1998/99 has recently proved. Japan, for instance, has already experienced a serious deterioration in public finances since 1992. Like many countries in the West, Japan has had to deal with the problem of a deficit in its general government budget balance, as well as the burden of an ageing population in its long-term welfare provision (E 09-96:44). It remains to be seen, however, what effect these problems in the Japanese economy will have on the recently completed opera house within Tokyo's New National Theatre complex (which opened 1997; see Turnbull 1998:39).

It is likely, following the model of its post-war industrial development, that East Asia will move away from the wholesale import of opera (receiving touring productions and singers from the West) and establish its own opera sector. Many East Asian singers, orchestral musicians and conductors currently have established international careers on the Western circuit. It is simply a question of putting this artistic human resource and developing infrastructure together. It will, however, be interesting to monitor the development of funding structures for opera in the various East Asian economies, some of which have a greater tradition of state intervention than others (e.g. South Korea). In Taipei, Taiwan, for instance, the main arts centre (which hosts western opera), the National Chiang Kai Shek (CKS) Cultural Centre, has already undergone a form of semi-privatization. If proposals go ahead, the centre will receive a major one-off endowment from the state, and will thereafter be expected to look after its own finances and revenue generation (Farish 1996:39). Innovative funding solutions such as this must inevitably be of great interest to the West, especially given the fact that in countries such as Taiwan, greater reliance on private sector funding is seen as synonymous with cultural and political autonomy. In the West, reliance on private sector support is seen, rather, as a source of disautonomy (there is a fear that sponsors will increasingly dictate repertoire programming).

In this context, it should be noted that in Russia, the move to a market economy has had a destabilising effect on opera provision. The Kirov Opera (Marinsky Theatre) has in recent years experienced cuts to, and irregular payment of, government subsidies (Meisner 1997:39). In Moscow itself the Bolshoi Theatre has been surpassed, in terms of its operatic reputation, by Novaya Opera (a small city government subsidized company) and Helikon Opera (a very small company founded in the 1990s) (E 07-97:110). Arguably the Bolshoi Opera, as a result, has lost its political rôle as Soviet icon and thus, lost its real *raison d'être* (see E 07-97).

South Africa is also a special case. Here, the encouragement of private sector funding and capital initiatives in the arts e.g. Spiers Winery Opera House project, Cape Town (Brookes 1996:25) is related more to internal political forces, and the need to stimulate socio-economic regeneration on equitable grounds, than to the globalization of finance and trade.

The trend towards increasing accountability

In the UK, in the aftermath of a wave of industry privatisations under the former Conservative government, societal values have moved towards increasing accountability in the provision of services e.g. the British Rail passenger charter, the National Health Service patient charter, the privatization of water debate, new environmental legislation, and recycling initiatives (for healthcare background, see CMND 3425/1996 and DOH NHSE 1996). In the early 1990s this led to the creation of a Charter for the Arts, following which the Arts Council of England announced a new *openness initiative* (ACE 1994a:4). More specifically, the Scottish Arts Council now cites as one of its aims the need to be *flexible, open and accountable* (SAC 1997a).

The emphasis of all these initiatives is to shift power from producers to consumers in order to encourage efficiency and optimal use of economic resources (again, a supply-side strategy). Now the philosophy of accountability manifests itself in the bolstering of systems of complaint and redress for consumers. The National Lottery Pilot Stabilisation Programme, introduced by the Arts Council of England in 1997, is designed to operate in line with this same shift in the locus of power (see DNH 021/1997). Conditions of the programme include: the provision of information for the National Audit Office (an independent body appointed to assess Value For Money issues in post-privatized industries), and, more specifically, the ability to demonstrate the *value in return* that may be expected from an investment of stabilisation funds (ACE 1996a). (We explore the concepts of *value* and *return* in detail in chapter 2).

Indeed, the very existence of the National Lottery Pilot Stabilisation Programme provides evidence that the UK subsidized opera sector is beginning to find itself subject to market economics in a way wholly foreign to its traditional funding culture.

Government's interest in accountability is a significant factor in the environment.

The trend towards accountability is not unique to the UK public sector. In the USA, in the mid 1990s, the National Endowment for the Arts (NEA) announced its intention to become a *more responsive and accountable agency* (Alexander 1996:210). Perceived as an élitist institution, the NEA had been termed the *Endowment of Arrogance* by the Baltimore Sun (cited in Reiss 1995:42).

Now, in a key paper on arts funding, Scheff and Kotler (1996:28) set out the specific implications of accountability for American arts organizations. The parallels with the European subsidized opera sector are strong :

> *...what the arts face today in the midst of spiralling costs, funding cuts, and greater competition for audiences is not a terminal crisis, but what Peter Drucker* [management academic and contributor to Harvard Business Review] *calls 'the challenge of accountability'. In the past, arts organizations have successfully looked to others for solutions to their problems. When the arts* [in the USA] *enjoyed rapidly growing audiences and readily available funding sources, arts managers had the luxury to operate a less than professional managerial environment. But cries for financial help and ineffectively targeted and positioned appeals to prospective audiences are no longer answered as readily. Pointing a finger of blame at the public for a decreasing interest in performing arts offerings and at the funders for changing priorities will not help to solve the problems. Rather, arts organizations must become more accountable for their actions and inactions. They must be proactive by planning, listening, and continuing to create and recreate, rather than to be reactive. Holding on to what has worked in the past then reacting only when a situation has become critical is no longer defensible* (Scheff and Kotler 1996:28).

Scheff and Kotler go on to characterise what they see as the twofold nature of the challenge of accountability. Firstly, the need to make art understandable and accessible to potential audiences, and secondly, the need to professionalise arts management and marketing (ibid. Scheff and Kotler 1996:28).

There are other formats or explanations of accountability which are even more comprehensive, and discussions of the subject, along with strategies for dealing with accountability problems have appeared in the standard texts of public sector management (e.g. Walsh 1995, Lawton and Rose 1994). For the sake of clarity, Table 1-1, based on a typology of accountability developed by Loughlin (1992) sets out the various forms and institutional mechanisms of accountability :

FORM		BASIS	INSTITUTIONAL MECHANISM	AIM
Political accountability		Democratic ethic	Periodic election	To ensure public policy decisions are made in the public interest (by testing the responsiveness or merits of a decision rather than the process by which it was taken).
Administrative accountability	***Financial probity***	Economic ethic	Audit	To ensure compliance with relevant statutory requirements and to improve economy, efficiency and effectiveness via *value for money* (*VFM*) analysis.
	Administrative propriety	Legal ethic	Judicial supervision	To ensure compliance with the principles of natural justice via adequate systems of complaint and redress.
	Administrative efficiency	Professional ethic	Inspection	To ensure professional competence by defining standards of services and performance in as precise a way as possible.

Table 1-1 *: Typology of accountability*

Now whilst Loughlin stresses that the various forms of accountability cannot be treated as rigidly distinct from each other, the typology nevertheless provides a useful overview. Most importantly, it enables us to see the way in which issues of efficiency (relating inputs to outputs), economy (relating costs to inputs) and effectiveness (relating outputs to outcomes) all impinge upon the concept of value. We discuss this in depth in chapters 6 and 7.

outputs to outcomes) all impinge upon the concept of value. We discuss this in depth in chapters 6 and 7.

The question of accountability, then, is of central importance at the level of the individual opera company. In an environment of increasing resource constraint, the type of *boom and bust* behaviour exhibited by publicly funded opera companies such as Scottish Opera (we demonstrate this in chapter 7) becomes indefensible. Indeed, in the mid-1990s the DNH[5] already stressed that its spending plans should operate in such a way as to ensure that *the Government's committment to keep public expenditure under tight control is fully honoured by achieving savings through efficiency measures* (DNH 363/1996). Suffice it to say that a company in financial crisis needs to do more in such a climate than simply reach for the begging bowl. That is, evidence needs to be provided that funds will be utilized efficiently over the long-term and not merely squandered on unsustainable artistic gain in the short-term. In a democratic state, the public (the *artistic value* franchise) is entitled to know what steps the opera company has taken and is taking to avoid future or continued financial crisis. Indeed, only if the opera company is open and accountable can funders, and those representing the taxpayer interest, make proper objective judgements as to whether any crisis which has occurred was or was not avoidable, and whether therefore, future funding is justifiable.

There is also a wider issue here. It might be asked, for instance, why some sectors of the UK economy (such as the arts) should be artificially shielded (via public subsidy) from the economic constraints which are being experienced by the country as a whole. The UK economy has been bitten by recession, its manufacturing base is weak, the population is ageing (as it is indeed throughout Europe and in Japan and the USA (for discussion see Johnson 1990), and the proportion of value earners is thus decreasing (see chapter 5). These factors combined will continue to put pressure on the operation of the Public Sector Borrowing Requirement (PSBR), for instance. Therefore, it is hard to see how continued expenditure on the arts can be justified without public accountability. As an example of what has already taken place in broadcasting (a closely related sector in the UK, since like the arts, it is one of the responsibilities of the

Department for Culture, Media and Sport[6]), we consider the case of the state run British Broadcasting Corporation (BBC).

Accountability : an example case

The BBC (British Broadcasting Corporation), a public service traditionally based on moral, educational, and community values, has undergone significant reform in recent years in response to the demand for openness and accountability. In particular, the need for responsiveness (to consumers) has struck at the very foundational values of the organization.

Lord Reith, founder of the BBC, saw broadcasting as a vehicle for national leadership as well as the setting and keeping of public standards e.g. standards of pronunciation of the English language, the upholding of the Sabbath (Smith 1995:82). Specifically, he believed that the education and moral improvement of the public was the organisation's real purpose, and to this end he maintained that the BBC should actively shape and direct public taste:

> *In the early days it was said that the Broadcasting Company ought to take showmen and super-showmen into its service because they know what the public wanted... Did the public know what it wanted? Look at the cinema, what it gave and what the public took from it. Those responsible for the control of broadcasting set themselves the task of being a little ahead of the public. They were criticized for it, told they were dictators, and accused of things which were far from their intention...* (Reith, speech to Manchester Luncheon Club, November 1927; cited in McIntyre 1993:159).

It was in the context of this paternalistic inheritance that, in the mid 1990s, the move towards an ethos of resource optimisation and of accountability (responding to rather than determining public needs and wants) was made. According to Tusa, former managing director of the BBC World Service, it brought about major and painful cultural change:

> *Of those sectors of which I have some personal experience, broadcasting moved into the era of change rather earlier than most; the arts are following fast, while the academic world is still in parts deeply unaware of what exactly lies in store for it. These new disciplines were only those that the private sector had used for years. That in no way diminished the sense of shock when they were introduced into the public sector* (Tusa 15-06-94).

With the appointment of Sir Christopher Bland as Chairman of the BBC Governors in April 1996, the need for an emphasis on private sector disciplines and on accountability was made manifestly clear. The letter of appointment from the National Heritage Secretary stated:

> *As Chairman, your task will be... to approve clear objectives for BBC services and to monitor the Corporation's performance against them. This you do on the public's behalf, and there is a public expectation that the newly-created mechanisms of accountability should be fully developed. This will involve building on recent work to enhance consultation with the public as viewers and listeners, in order to ensure that their interests and concerns are fully reflected in the BBC's output.*
>
> *It is of central importance that the new Statements of Pledges should be specific and challenging, and that you and your colleagues should assess performance against them with rigour.*
>
> *...Finally, there is the tremendous reputation of the BBC World Service... Internationally the BBC helps define the UK's image and reputation. There are opportunities for increased efficiency and for the introduction of private finance, which I know you will want to pursue.* (DNH 102/1996).

Now, specifically, the *mechanisms of accountability* which the BBC have developed in recent years include:

- 1) An annual *statement of promises to viewers and listeners*. First published 1996, this statement committs the BBC to the provision of *quality services and high standards for viewers and listeners in exchange for the licence fee* (BBC NR22 05-11-96). The five key promises for the first statement for the year ahead included a promise *to be accountable and responsive*. The first statement was also developed in such a way as to ensure consistency with the principles of the Citizens' Charter (ibid. BBC

NR22 05-11-96) i.e. with an emphasis on accountability as a mechanism of democracy.

- 2) The separation of commissioning and scheduling from production in order to improve cost effectiveness (BBC NR23 06-11-96). This results in greater transparency via the process of formal bidding for contracts.

- 3) The creation of an internal resources market to increase efficiency (BBC 1993a) via, for instance, the creation of independently priced resource teams.

- 4) The establishment of an Audit Committee to review the annual accounts and the auditor's report in order to verify the effectiveness of the BBC's internal controls and to ensure that the response of management to internal control issues is appropriate (ibid. BBC 1993a).

- 5) Definition of trusteeship (the rôle of the Board of Governors) around *five distinct responsibilities*: a) to stay closely in touch with public opinion; b) to ensure that the BBC's overall strategy reflects the public's needs and interests; c) to monitor and review performance against agreed objectives; d) to ensure compliance with statutory requirements and BBC guidelines e.g. compliance with the standards of regulatory bodies such as the Office of Fair Trading; e) to guarantee regular reporting to the licence payer and to Parliament (ibid. BBC 1993a).

- 6) The introduction of an Annual Performance Review in order to identify major issues, agree a revised three year strategy and set objectives for the year ahead, and to measure performance against the BBC's goal to be an *efficient, effective and accountable organization, making distinctive programmes of high quality* (ibid. BBC 1993a).

- 7) The development of an agreed set of performance indicators to measure quality, value for money, efficiency and effectiveness, not necessarily in a definitive way, but in a way which facilitates ongoing reporting to the general public (via publication of trend data and comparative data vis a vis competitor broadcasters and service providers) (BBC 1993a),

- 8) Reform of the existing advisory system of BBC Councils and Committees to reflect *a new focus on the views and concerns of audiences.* In addition to reform of formal advisory provisions (e.g. the General Advisory Council new working practices invites expert as well as public opinion on topics of special public interest and publishes relevant proceedings) the BBC claims to have established *the most comprehensive consultation process involving viewers and listeners* ever undertaken. This latter reform involves a rolling programme of direct contact with licence fee payers in order to permit regular feedback on strategic issues, and, significantly, the cultivation of an *informed* sense of the needs of the public (BBC 1993a).

- 9) Monitoring of policy compliance with e.g. health and safety regulations, transmission reach and coverage policy, and policy regarding distribution of programme production (BBC 1993a).

- 10) Reform of the systems of complaint and redress in order to allow viewers and listeners to write to named officials within the BBC, to ensure impartial investigation of serious complaints, to provide appropriate redress, and to make the system transparent via the publication of a regular Programme Complaints Bulletin (BBC 1993a).

- 11) Review of the Annual Report and Accounts to ensure reporting which is *more detailed, more focussed and more informative* so as to be *clearer about the objectives of the BBC and candid about how far they have been met.* Specifically, the inclusion of an important innovation in the Annual Accounts: the Director-General's Report on BBC performance *noting shortcomings as well as successes* and an assessment of future requirements (BBC 1993a).

Four important criteria for accountability emerge from this list. That is, an organization cannot claim to be accountable if: a) it does not make an objective report of its financial and service delivery performance (i.e. tells of its successes whilst glossing over its failures); b) it does not make regular account of its aims and its performance regularly available to the public (i.e. it reviews its performance but holds resultant reports within its internal archives, hidden from public view); c) it fails to cultivate an informed sense of public needs and wants (i.e. it maintains preconceived ideas of what the public wants or what is in the public interest); and d) it does not allow public opinion to influence the aims and performance of the organization (i.e. it does not listen to the opinion of those who use its services). A related problem (particularly a feature of healthcare in the UK) is the development of inappropriate performance indicators (i.e. indicators which either measure the wrong variables, resulting in meaningless comparisons, or which measure efficiency whilst purporting to measure quality, or indicators which measure quality in absolute terms when a relative measure would be more appropriate).

From our point of view, the interesting issue is whether or not the opera sector will be pressured to develop such an extensive range of accountability mechanisms. If not, we must conclude that opera is not regarded with the same degree of national importance by government as essential services such as healthcare, and other cultural services (or creative industries) such as broadcasting.

Capital versus revenue funding of opera

The National Lottery in the UK was launched in 1994, in effect, as a tool of macro-economic policy. Since most of the original 28p per £1:00 which was directed towards the arts, sports, charities, heritage, and Millennium Fund (via the National Lottery Distribution Fund) was directed towards capital projects, most of the initial benefit of the Lottery was designed as a spur to the construction industry. In effect, the Lottery acted initially as a tool for shifting government expenditure from consumption to investment (see, for instance EBA-NL c1997).

There are two ways of looking at this shift from consumption to investment. First, because the Lottery spurs capital investment, it can be seen as part of an overall economic strategy to stimulate output and economic growth. In this respect, it may also be seen to lift the burden of current consumption on future taxpayers, albeit in a small way. Second, the shift to investment may be seen as simple, short-term political expediency.

Capital projects, for instance, are attractive to government (politically expedient) because they yield politically measurable results and involve a relatively short-term draw on taxation. Thus, an opera venue can be built in a fixed period to a fixed and controllable budget (all things being equal) and result in a tangible asset which visibly signals government's beneficence and continued committment to the nation's cultural life and heritage (e.g. Bastille Opera, Paris; a Mitterand *grand projet* for the French capital). Revenue funding, however, is unattractive for precisely the opposite reasons: in the case of opera, it commits government to long-term, potentially unbounded expenditure, the results of which are difficult to measure.

In political terms, then, it is more productive to build a brand new opera venue or completely refurbish an existing one (with the expectation of short-term political benefits and future efficiency savings) than it is to maintain the status quo. Indeed, the revenue funding of opera, which, in the UK, has consisted of both regular grant-in-aid and emergency deficit funding, is not only burdensome in the long-term, but in terms of efficiency and equity, always remains open to political attack.

Thus, whilst there is evidence, in the mid 1990s, of a global trend towards capital investment in opera, revenue funding, vital for the actual production of opera, nevertheless remains problematic. This is an important point. In Sweden, for instance, the new Gothenberg Opera House (built by the City of Gothenberg in the mid 1990s) experienced immediate difficulty, upon completion, in attracting the 25% of budgeted revenue which it was required to raise from private sector sources (IAM 01-95:26).

Now recent arguments about the future of English National Opera (ENO) bring a curious twist to the political expediency of this shift from consumption to investment. The Arts Council of England, by allowing its opera clients to treat venue feasibility study costs as capital expenditure, have in effect encouraged opera companies to seek capital investment solutions to revenue funding problems. ENO, for instance, was saved in the early 1990s from the threat of eviction from its London Coliseum premises when it received state funds totalling £12 million to purchase the Coliseum freehold (see also chapter 7). Using National Lottery funds (counted as capital expenditure), the company subsequently commissioned a £1.4 million feasibility study, the conclusions of which recommended not refurbishment of the existing Coliseum premises, but investment in a purpose-built venue. The Department of National Heritage reportedly, and not surprisingly, looked upon this study as a *breach of faith* (IAM 02-97a:4). The outcome here is that the Coliseum, far from representing a valuable icon of government beneficence, in fact, has come to represent investment in an unproductive asset.

It remains questionable whether the theatre should have been bought by ENO in the first place, since it immediately faced an estimated £4.5 million repair bill in order to comply with Health and Safety regulations. In the private sector, businesses do not receive assistance to comply with Health and Safety regulations, so it is a fact that ENO, if it were to have acted responsibly and accountably, should have included this future cost in its revenue forecasts prior to purchase of the Coliseum. Compliance with Health and Safety regulations, whilst it may involve a capital investment decision, is nevertheless a revenue issue. It should have been made clear, in the interests of public accountability, that the company had insufficient revenue earning capability to cover this cost in the future (for additional background see IAM 04-94).

Thus, the economic and political arguments for redirecting public subsidy of opera towards capital investment are problematic. Not only does capital investment in opera distract us from the, arguably, more critical issue of revenue funding, but it has shown itself open to misuse.

Thus, it is precisely because capital investment in opera offers a politically expedient alternative to revenue funding that the current emphasis on the building and refurbishment of venues for opera in the UK cannot be taken as a sign of vigour in the sector; a problem which has been noted by the UK lobby group, the National Campaign for the Arts (IAM 02-97b:16).

It is also worth noting that even although the focus of the National Lottery Distribution Fund (NLDF) has, since November 1996, shifted away from purely capital projects, disbursement of funds for revenue purposes is nevertheless constrained. Indeed, this shift (which applies only to a portion of the NLDF) was specifically coupled, by the previous Conservative administration, to a new emphasis on the arts as *a key element in social regeneration*, and the rôle the arts must play in building communities and community values (DNH 357/1996). This aim or emphasis, moreover, has not been substantially altered by the current Labour administration; now the key concepts are *neighbourhood renewal* and the *new deal for communities* (see, for instance, foreword from the Secretary of State for Culture, Media and Sport in DCMS PAT 1999).

Shifting the responsibility for opera to the private sector

For the opera sector, the current shift towards greater private sector responsibility for the arts means a less certain future characterised by increasing competition for revenue resources. In the UK there is now an emphasis on plural funding: arts organizations are encouraged to seek funding not only from central and local government but from private sources as well as from box office receipts (see, for instance DNH 027/1996).

Set up in 1984, the Arts and Business Pairing Scheme[7], for instance, is designed specifically to lever funds from the private sector. During the 1990s the rules of this scheme have been changed several times in order to encourage yet wider private sector support of the arts. Under the previous Conservative administration, for instance, the rules were amended in order to foster sponsorships of a longer-term nature than had been typical (DNH 027/1996). Then, in 1998, the Labour administration changed the scheme rules in order to *spread funds more widely* and to *encourage businesses and arts organisations to develop more meaningful links* (DCMS 25/1998). These rule changes have the effect of shifting the responsibility for opera further to the private sector.

However, overall demand for private sector funds is itself increasing. With the introduction of the National Lottery in the UK (again with an emphasis on partnership funding from the private sector) total demand for sponsorship has effectively increased[8]. As a result, the arts must now compete directly with the sports sector and to some extent, with charities, for the same private sector funds. With the recent ban on tobacco advertising and sponsorship, for instance, the sports sector has lost one of its traditional sources of sponsorship revenue, thus compounding the problem (see, for instance DCMS 308/1998).

Continued emphasis on the rôle of private sector funding, then, will intensify intersectoral competition for sponsorship. This must inevitably put the UK subsidized and non-subsidized opera sectors under further pressure to expand and professionalise their fundraising efforts. Indeed evidence suggests that, since the mid-1990s, the major UK opera companies have already committed themselves to this process e.g. the creation of development departments with representation at senior management level, closer linking of marketing and fundraising functions, use of information technology to aid precision in the design and assessment of fundraising campaigns, and adaptation of private sector *relationship marketing* techniques to encourage funder and donor loyalty (see, for instance, IAM 02-98).

There is a further problem. Because private sector sponsorship has a relatively short history in the UK, it is difficult to estimate the total potential supply of corporate funding. Simple comparisons with other countries do not help in this respect since private sector funding is not homogenous at international level. In the USA, for instance, the majority of private funding is undertaken by individuals, whereas in Europe, it is largely undertaken by trusts, foundations and companies (for discussion, see McIlroy 1996:43). Equally, tax laws and legal dispositions vary considerably across national boundaries, and the effects of changes in these laws and dispositions are difficult to predict. Thus, the shift from public to private sector funding is, from the point of view of the individual opera company, a highly uncertain prospect.

Realistic assessment of private sector fundraising potential may also be compounded by a tendency to overstate the growth of sponsorship in the UK. There are two aspects to this: first, the focus on long-run growth in business sponsorship of the arts since the foundation of Arts and Business (formerly the Association for Business Sponsorship of the Arts) in 1976; and second, the use of nominal or current price data which does not take account of erosion in the purchasing power of the pound.

Reference is often made in the arts management press and in arts management texts to the fact that the annual Arts and Business spend (i.e. the total annual business sponsorship of the arts by Arts and Business members) has risen from a mere £600,000 in 1976 to around £80 million in the mid-1990s (e.g. Morris 1997:18, Hill et al. 1995:169, and for earlier example, Waters 1989:113). See Figure 1-3:

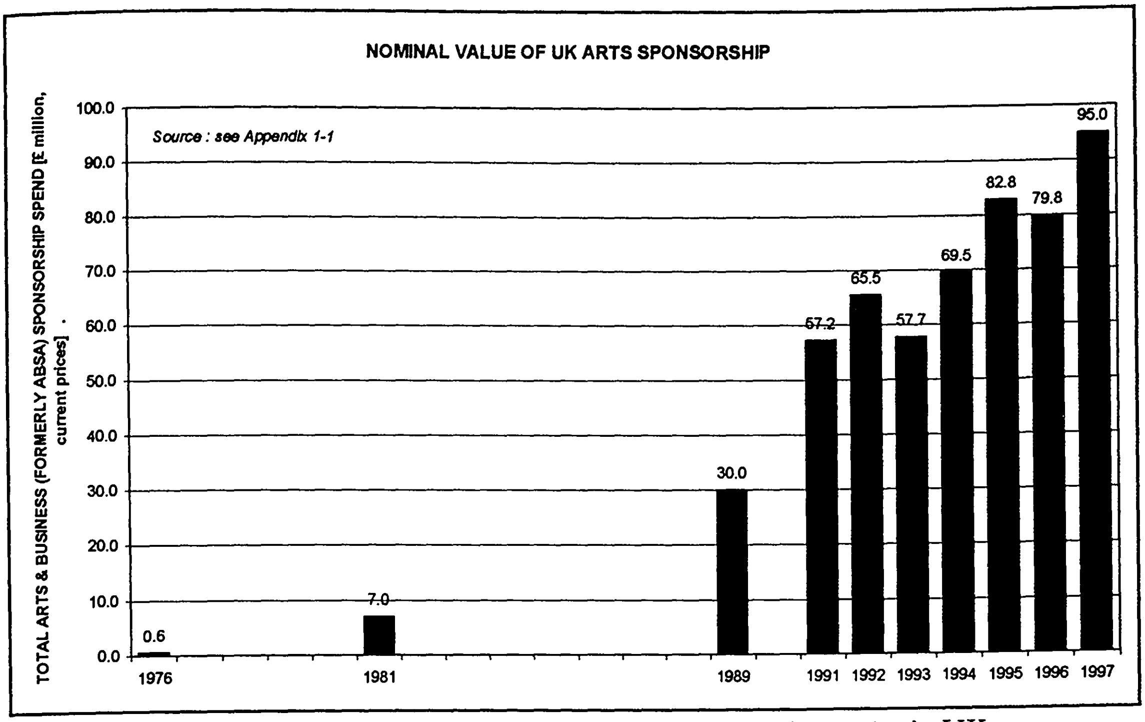


Figure 1-3 : *Nominal value of business sponsorship of the arts in the UK*

However, in taking this generalized view, the most important fact is missed, namely: that through the 1990s real growth in the annual Arts and Business spend has slowed significantly. This is demonstrated in Figure 1-4, which shows a comparison between the real and nominal growth of the Arts and Business spend since 1991.

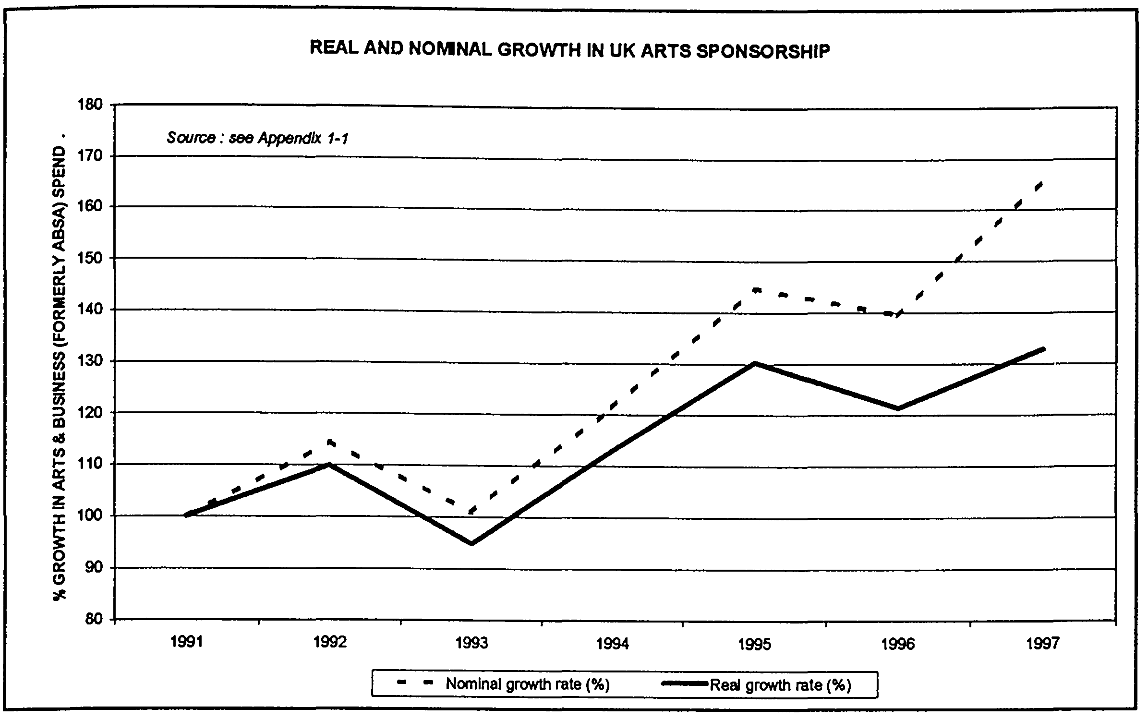


***Figure 1-4** : Business sponsorship of the arts in the UK (real and nominal growth)*

The first plot series in Figure 1-4 shows the apparent growth rate in business sponsorship of the arts in the UK based on current or nominal prices (i.e. those usually quoted by Arts and Business, and arts management academics). However, such trend data is misleading unless normalised (adjusted for changes in the purchasing power of the pound). This is done in the second plot series in the standard way, using a Retail Price Index (GSS 1997). It immediately gives us a more realistic picture of the value of sponsorship in the UK. As can be seen, a simple plot of nominal spend figures overstates the growth rate by just over 30%, which computes to a significant amount in real terms (i.e. real growth on 1991 is overstated by approximately £20 million). Reliance on nominal growth data is misleading, then, insofar as it encourages an unfounded optimism about the growth of sponsorship in the future.

It is also an interesting feature of our comparative plot that it reveals a real decline in growth in the year ending 1993 i.e. growth can be seen to fall below 100%. This means that in real terms, the value of business sponsorship of the arts in 1993 fell below that of 1991. Expressed in terms of nominal growth or current prices, however, this decline is not apparent: the overall growth trend appears unchecked (never falling below 100%).

A related problem is that the year on year figures can be distorted by capital spending on one-off projects: capital project spending dropped in 1995-96, for instance (Corr. 1997a). Thus the component structure of the Arts and Business spend is also an important factor in assessing sponsorship growth and impact; and it is one which needs to be given more attention (for reasons we discussed earlier).

There are also significant regional differentials in the distribution of sponsorship in the UK. Total business support of the arts in 1995-96, for instance, was heavily biased towards the south: England received over 80% of total business sponsorship, whilst Scotland, Wales and Northern Ireland, taken together, accounted for only 13% of the spend. Moreover, within England, London derived the greatest benefit: the capital receiving 65% of all sponsorship in England (ABSA 1996a). The uneven distribution of this spend, as might be expected, reflects the geographical concentration of business activity in the south-east of the UK, a fact which may have significant consequences for opera. Should government withdraw its support from the national and regional opera companies, for instance, a wholly different geographical distribution for UK opera, positing cultural vibrancy in the south and underdevelopment in the north, might be expected to emerge.

A communitarian perspective?

Under the leadership of Tony Blair the current UK Labour administration has taken up a communitarianist perspective in its policy making. By aiming to temper laissez-faire capitalism with social justice and the restriction of special interests, it has adopted a policy stance based on communitarianist principles, which is usually referred to as the *Third Way*.

Briefly, communitarianism (a theory of ethics) emerged in the 1980s, in the USA, as a challenge to the ideals of individualist liberalism and political conservatism. The central idea of communitarianism is that the general good (the good of the community) must not be subordinated to that of individual self-interest, and that individual rights must be balanced with responsibilities (see Etzioni 1996).

Communitarianists such as Bellah (Bellah et al. 1985) believe that one of the key ways in which this re-emphasis of value can be achieved in society, is by means of bolstering the voluntary sector (which embodies various forms of community such as charities, youth organizations, and other community service organizations). Communitarians believe that this *third sector*, which in the loosest sense of the term, *mediates* between government and individual, is thus an essential element of the democratic life of a state.

A particular feature of communitarianism is the committment to the principle of community development. This is the idea that public funds be provided direct to voluntary organisations, and not via local government (see Etzioni 1996a). But the ethical framework which underpins this is interesting, for whilst the community provides a place for *moral dialogue*, it is not to be regarded as the *ultimate moral arbitrator* (ibid Etzioni 1996a:35). In other words, devolvement is not complete; the move away from an ethos of welfare paternalism, in its broadest sense, towards individual and community empowerment is a partial project. At some point there must exist universalisable ethical criteria, not least to enable government to deal with those communities which do not appear to act in the public interest[9] e.g. extreme right wing or racist organisations. Applied to the arts, this implies the continued need for arts policy at a national level.

Nevertheless, the more communitarian ethics are adopted and articulated at the level of social institutions, the more we may expect to see an explicit underlining of the rôle of voluntary effort in the arts (a bolstering of the *third sector*). There is already discussion in the arts management press about the increasing importance of volunteer effort (at all levels of the arts organization). Volunteer effort, it is thought, should increasingly be managed in genuine partnership with the organization. Moreover, its value to the organisation is now seen in terms of the potential long-term contribution it can make to such factors as: understanding and interfacing with audiences; defining the image of the organization; and determining the effectiveness of the organisation (for background see Brookes 1997).

The issue of communitarianism, as it affects the relationship between community and culture in terms of arts policy and funding, is worthy of future research. In the UK, Prime Minister Blair is known to be particularly sympathetic to the ideas of communitarianism and has met with Amitai Etzioni, one of its key proponents (E 03-95:31). Moreover, Blair, in his *New Britain* (1996) strongly emphasises what he sees as the potential rôle of voluntary organizations in society (Bellah's *third sector*), stressing that as yet they remain undervalued in terms of potential contribution to economic life. Future research would most usefully ask to what extent voluntary effort, in the context of the arts, will be promoted by government as a resource in tandem with public subsidy; and to what extent community devolvement will affect the arts? It is extremely important that the opera sector prepare itself for the potential consequences of any extension of communitarian ethics into the cultural sphere.

1.3 Summary

We have identified and discussed the various political and economic forces which are currently acting upon opera in the UK. Beginning with a brief survey of the main opera economies, we saw that the globalization of trade and, in Europe, pressure to conform to Economic Monetary Union criteria were causing many governments to restrict public spending. In the context of the UK, we saw that the trend towards increasing accountability is now a major force in the public sphere. Other factors in the environment included a trend towards capital rather than revenue funding of opera, and a shifting of funding responsibility towards the private sector. Communitarian ethics were identified as a major new factor in the political sphere.

2. THE TRANSACTION MODEL OF OPERA

2.1 Introduction

In this chapter we develop a transaction model of opera comprising three main components: *opera*, *value*, and the *environment*. The purpose of this model is to explain the behaviour of two variables (*artistic value* and *financial value*) and to show how the opera company is systematically linked to its environment via transactions, or the trading of *artistic value* and *financial value*, with external parties. In particular, we are interested in the rôle of government, the influence of our *artistic value* franchise (which we introduced in chapter 1), and perception as the key determinant of value.

The process of producing opera is treated as a process of transforming a complex of *financial value* and *artistic value* inputs (monetary and artistic resources) into a complex of *financial value* and *artistic value* outputs (an asset/liability structure and performances of opera)[1]. Our key point is that although value is added in the course of transforming inputs into outputs (the process of producing opera), it is not realised until a transaction occurs. Value is therefore a subjective matter; it is what parties in the environment believe it to be, and its measurement is therefore a question of the measurement of perception. Thus, in our model, added-value is not equivalent to realised value.

We can now begin to specify and describe in more detail the behaviour of our model. Since it is quantifiable in objective terms and is conceptually easier to understand, we will begin with *financial value*. The time period of the model represents one financial year in the productive life of an opera company (or sector).

2.2 Behaviour of financial value

In financial accounting (as opposed to management accounting) the accounting or reporting of the financial transactions of an organisation is a macro scale rather than micro scale or operational level activity. This means that the organisation, here the opera company, is treated as an entity which interacts or makes transactions with external parties in the environment (this entity is represented in our model below by the transformation process and associated assets, see Figure 2-1). The objective of such accounting, which is rule-bound and therefore consistent and testable, is to allow external parties or stakeholders to monitor the performance of the organization, most often on an annual or financial year basis. We therefore use the term *financial value*, in this study, because we are using financial accounting reports as our source of raw data in the research chapters of this thesis.

In addition, the term *financial* in this context is also suitably neutral i.e. does not imply surplus value or profit, which would be misleading since in this thesis we will be dealing primarily with a non-profit sector. In the research chapters of this study we also develop a measure of financial intensity which is based on turnover and therefore includes both labour and capital costs. For this reason we avoid use of the term *capital* which in economic theory is often used to denote a factor of production which is distinct from labour (hence capital intensity as distinct from labour intensity). Most importantly, whether it is measured as a quantity of income or expenditure (i.e. as a type of financial flow), as a quantity of assets or liabilities (i.e. as a type of financial store), or by an accounting ratio such as current ratio (current assets less current liabilities), *financial value* can be negative as well as positive e.g. a deficit is a negative quantity of *financial value.*

The following model (Figure 2-1) describes the behaviour of *financial value*, setting *artistic value* aside. In this model we show a single transformational stage, together with a single feedback loop and a single input driver (in this case, government subsidy). Although highly simplified, it represents all the behavioural elements we wish to describe. Key to this model is the *planning operator* which allows us to model opera company policy and planning decisions as a single factor - the relation of budget to available resources. Note also that the transformational assets component allows us to model *financial value* storage both in its simple form as financial investment/debt and as physical and leveraging assets such as plant, buildings and intellectual property.

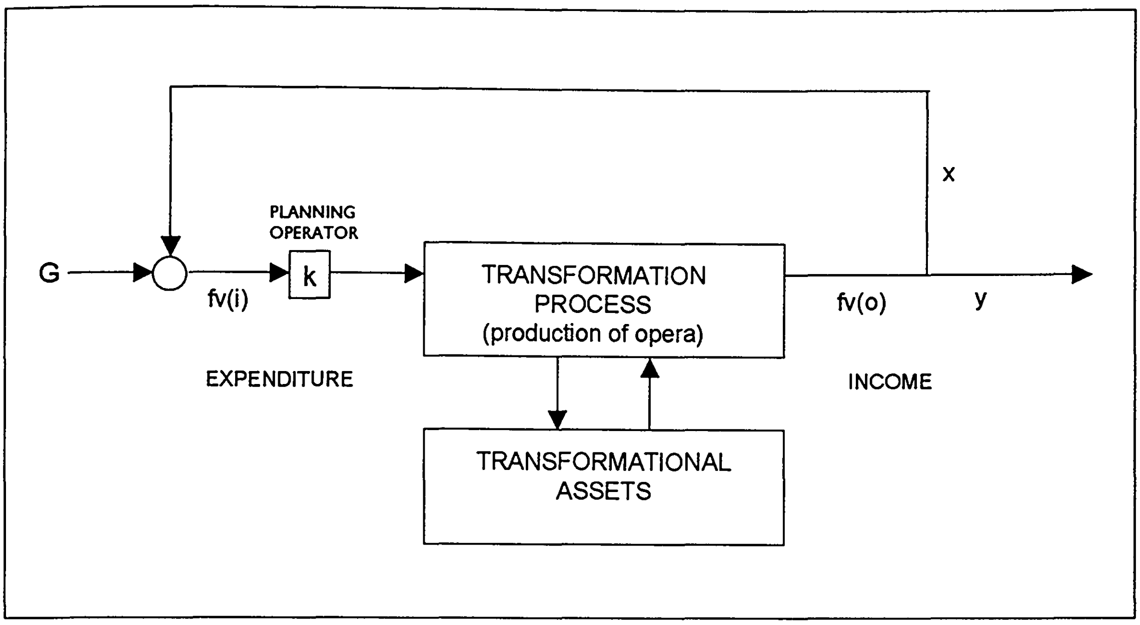


***Figure 2-1** : Behaviour of financial value*

Where:

G = The given amount of government subsidy for the financial year ahead. This is realised by a transaction (not represented in the model) between government and the opera company.

fv(o) = Net income from operations and any release of stored *financial value* (i.e. assets) which appears on the income and expenditure sheet at the financial year end, and which is therefore available for consumption in the following financial year. This income is realised via transactions (not represented in the model) between the artistic value franchise and the opera company. Note, fv(o) may be negative (current deficit) as well as positive (current surplus) depending on the relation of costs to income.

y = That portion of net income, fv(o), which in a private sector, commercial opera operation, is removed from the system as profit or shareholder dividend.

x = That portion of net income, fv(o), which is available for consumption in the production of opera in the following financial year. In the case of the UK subsidized opera sector (a non-profit, charitable sector), y=0, therefore x=fv(o).

fv(i) = The total financial input, consisting of government subsidy for the year ahead, plus previous year's net income from operations and the release of (transformational) assets, G+x, which is available for consumption in the financial year ahead. Note in the case of a non-profit company fv(i)=G+fv(o).

k = Coefficient, part of planning operator representing management's decision as to the proportion of available income, fv(i)*k, it wishes to apply to the production of opera in the financial year ahead; where k is the ratio of planned costs to available income, fv(i).

Management control

If we apply this model to the UK subsidized opera sector, three planned management control outcomes are possible. These outcomes represent the *financial value* choices (management control decisions) which must in real life be made by management at the outset of the financial year. Management may aim to keep the opera company's finances in equilibrium by the year end (no net surplus or deficit), or it may choose to aim for a surplus at the year end, or indeed, a deficit. Thus, to make this explicit, we may use the coefficient, k (> or <1) which reveals the planned outcome:

Aim for equilibrium, fv(o)=0 fv(i)*k, where k=1 (i.e. planned costs are equal to available income)

Aim for surplus, fv(o)>0	fv(i)*k, where k<1 (i.e. planned costs are less than available income)
Aim for deficit, fv(o)<0	fv(i)*k, where k>1 (i.e. planned costs are greater than available income)

This is to a certain extent an oversimplification, since management must also take into account forecast income which will be earned from operations and the release of assets during the financial year for which it is budgeting and planning (e.g. box office income, sponsorship, the sale of an asset, or release of reserves). Nevertheless, since historically, companies in the UK subsidized sector have relied on public sources (i.e. government) typically for 50% to 70% of their annual income[2] (see research chapters 7 and 8), and because sponsorship income is largely known in advance, this fact is not significant in our model.

An interesting exception, as we will show in chapter 7, is Glyndebourne Productions which relies almost solely upon private source income (i.e. G is approximately zero), thus making its management control decisions all the more sensitive and difficult in terms of risk and uncertainty i.e. fv(i) is a lot more difficult to predict where fv(o) rather than G is the major contributor to annual available income. Glyndebourne Productions is thus a private sector exception which proves the rule that in achieving year end management control or *financial value* objectives in the subsidized sector, forecasting of operational and other income for the financial year ahead is not a critical success factor. Turning this round, it implies that budgeting and planning in the subsidized opera sector is a far less problematic affair than in the private sector, precisely because of reduced uncertainty (available income is largely a parametric or known issue). Budgeting from a known starting point is a considerably easier exercise than budgeting in conditions of uncertainty and change. We would therefore expect to see better management control outcomes (fewer and smaller deficits) in the subsidized sector when compared with Glyndebourne Productions, our private sector representative in this study. In the research chapters of this study, however, we find quite the opposite effect: that management control in the UK subsidized sector is not only poor, but produces long-term instability in the sector. Our model simplifies the issue for us: either the planning control, k, is set poorly (by design, or by incompetence), or the day to day management of the transformation process (production) is below the standard achieved by Glyndebourne (i.e. less efficient).

Now in this context, since it is dynamic in nature, the model shows that a company which returns a deficit in two or more successive years, either through choice or through poor management, will begin to show an accumulated deficit on its balance sheet. In financial accounting the accumulated surplus/deficit situation is a measure of solvency[3] and as such provides a very succinct or summative measure of *financial value*. A deepening accumulated deficit may result where G, fv(o) or both G and fv(o) are decreasing. Note fv(o) may decrease as the result of, for instance, consistently poor budgeting skills (inability to set realistic budgets or overspending), lack of prudence in forecasting income, failure to qualify risk in planning operations for the year ahead, or sudden unforeseeable change in the environment which provides a shock to the system which is not beneficial (e.g. unmanageable risk such as a currency revaluation which causes a sustained drop in overseas tourist ticket sales). Apportioning blame for a deepening accumulated deficit is a question of identifying which elements in the model are changing: is it the fault of government for reducing the real value of subsidy; is it the fault of the opera company for poor management control skills; or is it the result of some change in the environment over which no party has any real control? Study of the political and economic environment of opera, and study of the qualitative data which accompanies the annual financial accounts of individual opera companies will enable us, in the research chapters of this thesis, to test the model and develop an understanding of the causal factors involved in the accumulation and reduction of deficit (our key measure of *financial value*).

Furthermore, the issue of management control is particularly interesting because a company which is accumulating deficit (negative *financial value*), if left to its own devices (i.e. government subsidy is withdrawn) would naturally be expected to fail in the short-term (1-2 years). The model predicts this will occur because, over time, annual income available for consumption in the production of opera will tend to zero:

$$fv(i) \rightarrow 0$$

But there are two cases in which an ailing company such as this may survive. The first is by a change (real increase) in the value of government subsidy, G, which is awarded to the company at the beginning of each successive year (the increases have to be year on year since fv(i) is tending to zero). The second case is the periodic, unplanned injection into the system of emergency public funding: additional or supplementary injections of G which the model does not predict, but which occur in practice as we shall show in chapters 7 and 8. Typically, however, such increases in G and/or unplanned injections of G will distort the short-term financial position of the company and will disguise the fact that fv(i) is still tending to zero (creditors may get paid today, but not necessarily tomorrow). In both cases, the company becomes ever more reliant upon government to sustain its operations and to bail it out of ever recurring crises. Here the model predicts that the pursuit of short-term stability in the company's *financial value* will induce long-term instability (manifest in poor control of deficits). Indeed, as long as government does bail out the opera company, there is little motivation for the company to improve its management control in the long-term. Seeking rescue in the short-term is easier than pursuing long-term improvements in financial efficiency, especially if historically, government shows itself easily pulled into a pattern of repeated emergency deficit funding (which is evident in the case of Scottish Opera in particular, see chapter 8). Long-term instability may indeed be a plus for producers as long as it provides a mechanism by which to lock government in to ever increasing funding. Again, we look for evidence of this in the qualitative data which accompanies opera company financial accounts. We also seek evidence of poor management control in our sample companies by studying historical patterns in company accumulated deficits and searching for features such as volatility and response to disturbances such as emergency funding. Specifically, the model allows us to ask about the degree to which $k>1$ (aiming for current deficit) is a deliberate policy or is accidental; an important public policy issue.

The rôle of transformational assets

Distinction is made in the model between the transformation process (actual operations, or the production of opera) and transformational assets (the fixed establishment of the opera company). This distinction is important because it represents a qualitative difference in the treatment of *financial value*. Whereas the transformation process represents the flow of operational income and expenditure i.e. that portion of fv which varies with activity (e.g. sale of tickets, sponsorship and fundraising income, expenditure on materials, guest artist fees, travel and subsistence, income released on the sale of assets) the transformational assets component in the model represents that portion of *financial value* which is locked or invested in establishment assets and liabilities (e.g. ownership of theatre premisses, contracted personnel, stage equipment, vehicles, subsidiary trading companies, computers, paper assets such as special reserves and endowment funds). In any organisation there is a dynamic relationship between the flow of *financial value* and the store of *financial value*; what makes this important in the context of UK subsidized opera, as we shall show in the research chapters of this study, is the degree to which investment in transformational assets (storage of *financial value*), and therefore incurrence of liability[4], has been increasing in historical terms.

Now, in our model, the transformational assets component acts in analogous way to a dam: as a store and smooth of value. However, whereas a dam will release stored value (water) on demand, many opera company assets exhibit poor liquidity (i.e. are not easily realisable in cash terms) therefore introducing a degree of stickiness or friction into the system. From the point of view of the subsidized opera company this poor liquidity is a useful feature insofar as it permits the making of political capital out of any financial crisis situation.

A subsidized opera company facing bankruptcy (where fv(i) is tending to zero or, where fv(o) is negative, and where deficit is accumulating over time), for instance, is a political embarrassment to government. If, because of persistent financial instability for instance, it was decided necessary either to wind up the Royal Opera or sell it as a going concern, and therefore find a private buyer for the newly refurbished Covent Garden theatre complex, how long would this *financial value* realisation process take? What political damage might this cause after several months keeping the venue on the market, fending off overtures from inappropriate prospective buyers, or the embarrassment of adding a redundant, highly skilled staff to unemployment figures? This is quite apart from the public debate which would inevitably take place about why public money was sunk into the theatre in the first place if its financial viability was known by government to be uncertain? The longer the duration of the transaction (assuming a potential buyer was found) the greater the scope for public debate; and all the while the costs of maintaining the venue would have to be met (an analogous case at the time of writing is the Millennium Dome, Greenwich).

As we shall show, the building up of transformational assets, which amounts to increasing the degree of establishment and therefore security of an opera company, forms an important and persistent feature within the UK subsidized sector. The model suggests, then, that an appropriate methodology for examining the true cost of opera is one which focusses not on direct cost, but on total cost (i.e. financial flows plus financial stores). In the research chapters of this study we use annual turnover as a proxy measure of total cost precisely so that we can take into account the rôle of overhead, or what we term establishment costs, in the production of opera.

What the model does not explain, however, is in what way the building up of transformational assets, the further establishment of the company, is believed by producers to add value for members of the *artistic value* franchise. Who benefits from these assets? Certainly sponsors need private front of house function facilities, but what do ordinary audience members gain from a company's ownership of its own theatre? What is the effect on the financial efficiency of the opera company and on management control? Indeed is value *added* or *lost* through investment in fixed assets and increasing technical elaboration; how, if at all, is it realised in transactions with external parties; and what value would we be talking about, *financial* or *artistic*, or indeed, can we meaningfully separate the two when we are talking about the asset/liability structure of an opera company?

Now, by added-value in this context, we mean the value which is added in the process of transforming inputs into outputs in the production of opera. In *artistic value* terms, when six principal singers are brought together to form the sextet in Act III of Mozart's *Le nozze di Figaro*, for instance, the individual inputs (singers) are valued for the sum of their efforts - the sextet. To an individual who enjoys the craft and the subtlety of Mozart's writing, as well as the balance and blend of the ensemble itself, however, the whole may be perceived to be greater than the sum of its parts. If this perception were shared by a majority of audience members, we might know this by the intensity of audience opinion e.g. enthusiastic applause. This is a trivial example, but it serves to illustrate that value added in the transformation process (here, the adding together of inputs to produce a new output) is not equivalent to value realised through perception (the whole sextet is perceived to be greater than the sum of the singers) i.e. there are subjective factors at work.

The same applies in *financial value* terms, where we take changes in total assets as our measure of the *financial value* which is added in production[5] i.e. how much has been added to the value of the opera company in the form of assets in order to make the establishment bigger in financial terms. Now an opera company's total asset value has meaning only when these assets are realised in the context of: a) going concern, or b) liquidation. In both cases the company's total asset value as a measure of *financial value* is qualified by subjective factors. The monetary value of an asset, where the opera company is treated as a going concern, will be based on an estimate of future earnings (e.g. the value of a theatre when box office income is still expected in the future; this can be seen in Scottish Opera financial reports). The monetary value of an asset for disposal, when the opera company is put into liquidation, will be based on market factors such as scarcity and demand (e.g. is the theatre in marketable condition, and what is the likely demand for such a resource or alternately, for the site?).

The adding of *financial value* (in the form of transformational assets) is visible to us in opera company financial accounts. But its value to the *artistic value* franchise and to producers themselves is a matter of debate. In this study, we look at total costs precisely in order to ask the question, what is the true cost of subsidized opera, and what is the importance of stored *financial value* in *artistic value* terms? Who benefits, and can we see the difference, in terms of financial efficiency between a company which owns its own theatre (e.g. Scottish Opera), and one which does not (e.g. Opera North)? We address these issues in chapter 8.

Rôle and implications of transactions

In its specific legal sense, a transaction implies an exchange of property rights i.e. the exclusive rights to use, transform and transfer particular assets, goods and services (Newman 1998). In our model, consistent with this definition, it is the exchange of property rights (which we can characterise as a trade of values) which distinguishes sponsorship from philanthropy, for instance. Whereas the sponsor expects value in return for his monetary or in-kind support, the philanthropist gives his support as a gift, without the expectation of value in return. It is precisely the two-way flow of value between the opera company and a given party within the environment which characterizes the transaction and which, in our model, provides the driving mechanism for the production of opera.

The important point is this: that although value is added in the transformation process (the production of opera) it is not realised or perceived until a transaction between the opera company and an external party occurs. An individual, for instance, who buys a ticket (gives up property rights on a quantity of money, *financial value*) in turn gains right of access (property right) to a performance (expected *artistic value*). Whether the performance has *artistic value* or not is a question for that individual. If he perceives it to have value, then it has value for him. He may of course ask the opinion of others, but value is still a matter of his own perception.

Whereas the transformation process causes the change of inputs into outputs, and thereby provides the mechanism by which value is added, the transaction (or strictly the aggregate of transactions which occur in the company's financial year) governs the quantity and quality of inputs and, because the transformation process or production of opera is a reproducing cycle[6], determines to some extent the nature and rôle of outputs i.e. the starting and end conditions for the adding of value.

Repeatability of transactions is therefore an important factor to the opera company. Because historically, government subsidy, G, shows little volatility, its repeatability from year to year is largely a null issue. Sudden and complete withdrawal of subsidy amongst the major players in the UK subsidized opera sector is the exception rather than the rule e.g Kent Opera in the 1980s is an isolated example. In the case of sponsorship, however, repeatability is a major issue. A sponsor company wishing to cut costs because for instance there is a downturn in the economy, or because shareholders are not seeing sufficient dividends, may decide against sponsoring the opera company for a second year, even although it may have valued the exercise in the first. This is why sponsorship income, though it is often known ahead of the financial year and therefore behaves in practice as a parameter in our model, is not truly parametric since its very existence cannot be assumed as given from year to year. Sponsorship therefore appears in our model as part of fv(o).

Now, since companies within the UK subsidized sector must seek income from both private as well as public sources (G is not the sole driver of the transformation process), the typical subsidized opera company is a *financial value* input omnivore. Its diet of transactions is very mixed: there is a single high value subsidy transaction with government in which the company pledges to deliver on certain agreed cultural policy goals in return for the major part of its financial input needs; there are perhaps four or five transactions with major sponsors in which the company pledges to deliver a new production, corporate promotion and corporate event facilities in return for the major part of the budget needs of its planned new production; and at the other end of the spectrum there are the thousands of transactions with individual audience members in which the company pledges, in each single case, access to a single performance in return for an almost infinitesimally small amount of its annual *financial value* input needs.

Clearly, from the point of view of the opera company, the most efficient way to seek *financial value* input from the environment is to increase the value of individual transactions whilst decreasing their volume. One classic way in which this can be achieved is to maximize subscription ticket scheme sales. Instead of trying to market and sell, say six performances on an individual basis to one or more people (6 relatively small value transactions), a subscription scheme enables the company to sell those 6 performances as a package to one single individual (1 relatively high value transaction). But whilst this benefits the producer in the short-term, by improving advance sales and thereby reducing uncertainty, it may result in a narrowing of the audience base, which, in the long-term will introduce instability (i.e. unpredictable change in the pattern of box office income).

2.3 Behaviour of artistic value

Artistic value is clearly not objectively quantifiable. The question of how many popular works exist in the current international standard repertory, for instance, is a subjective one and one that varies across different locales e.g. what is popular in Vienna will not necessarily equate to what is popular in Milan or in Glasgow.

In systems theory, however, non-measurability is a common problem: not all variables are linear, continuous or even well-defined e.g. in an industrial process where *noise* acts as a control variable. Noise, which is a sum of unknown frequencies, and change in noise (a change in the mix of frequencies) whilst not mathematically simple to determine, may be described as a change in colour. Engineers refer to *pink*, *red*, *white* and *black* noise, using colour (which is itself a spectrum of frequencies) to describe noise in qualitative, discrete terms.

In like manner, we can regard *artistic value* as a spectrum of opinions (realised in transactions which give access to performances). Developing our analogy, we will tend in our system, as is true in industrial processes, not to get *white* noise, which is an infinite spectrum of opinions (frequencies) as our result, but rather, groupings of opinion - a particular colour or colours. Overall, aggregate audience opinion will tend to be favourable or unfavourable, for instance. Indeed, audience response to contemporary and *difficult* repertoire, might produce a bi-modal response where one audience group loves the work, and another more traditional group says that it is simply *not opera.* A statistically negligible number of responses may be found between these two.

We may develop our analogy further still, whereby the degree of coherence of opinions (in our *artistic value* franchise) may be taken to reflect intensity of *artistic value.* Our analogy between noise as a sum of unknown frequencies and audience opinion as a sum (or aggregate) of unknown opinions is therefore strong and consistent.

Opinion, then, is the yardstick by which we measure *artistic value* in our transaction model. Now it is theoretically, and to a certain extent, practically possible to measure opinion (via polls or direct referenda; see for instance Frey and Pommerehne 1995, and Wagschal 1997) but within the model, what matters is not so much the nature of opinion as its controlling ability, its ability to influence the production of opera in the medium- to long-term. We are interested in opinion, in the same way as the process control engineer is interested in noise i.e. in the extent to which it acts to modify the behaviour of the system and its output. How much does the opinion of the *artistic value* franchise actually matter in the real world; to what extent does it influence the opera company, and are some opinions (like frequencies in the control of noise) excluded or filtered out?

In the following model (Figure 2-2) we describe the behaviour of *artistic value*, setting *financial value* aside. In this model our single input driver is represented as government policy (cultural strategy and policy goals for opera). The *planning operator*, as in Figure 2-1, above, allows us to model opera company policy and planning decisions as a single factor - in this case, the relation of producer opinion to consumer (*artistic value* franchise) opinion. The transformational assets component in the context of artistic value here represents the intellectual property associated with stored productions (sets and costumes) and contracts with artists.

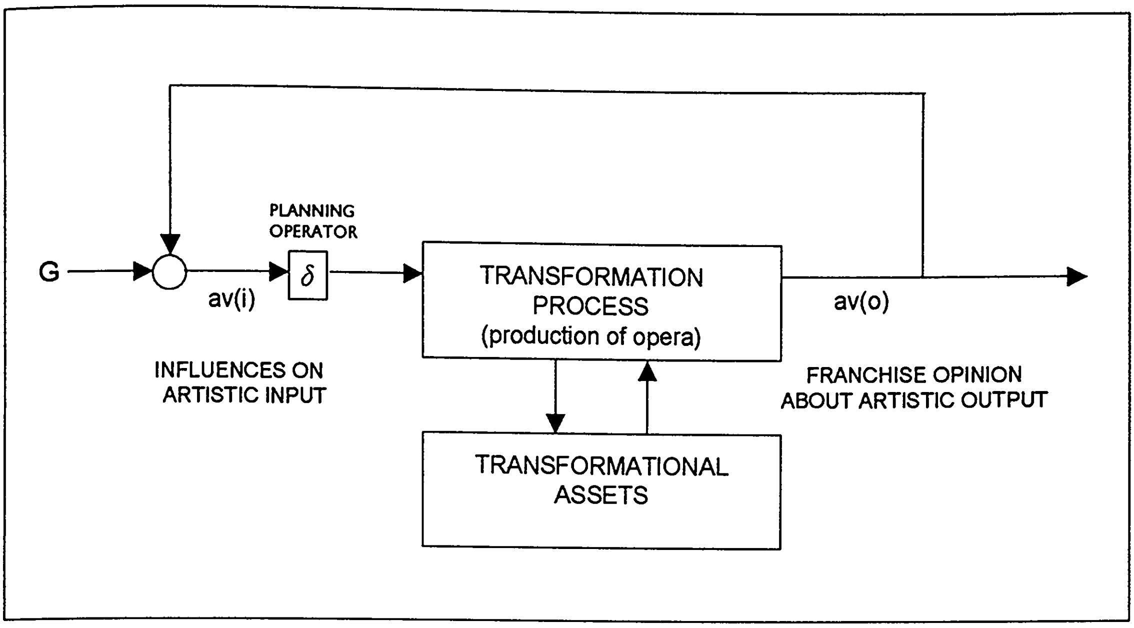


Figure 2-2 : *Behaviour of artistic value*

Where:

G = Government cultural strategy and policy goals for the subsidized opera sector as set out by the Arts Council of Great Britain.

av(o) = The aggregate of *artistic value* franchise opinion on the output of the company (or sector) over the financial year. This franchise comprises, in the case of the UK, all UK citizens whether taxpayers or non-taxpayers. Principal parties in the franchise are audiences and sponsors (opera consumers) as well as producers themselves.

av(i) = The sum of influences on the *artistic value* goals of the opera company. This comprises government cultural strategy and policy goals for subsidized opera plus the aggregate of *artistic value* franchise opinion on the output of the company (or sector) over the financial year, G+av(o).

δ = Filter, part of planning operator representing management's decision as to the degree and extent of *artistic value* franchise opinion (which includes producer opinion), av(i)*δ, it wishes to acknowledge and act upon in the production of opera in the financial year ahead.

Rôle of government

In this model, government cultural strategy and policy goals for opera act as a parameter. Because of the *arm's length* principle which governs state intervention in the arts in the UK, government cannot form an opinion, av(o), about the *artistic value* of the UK subsidized opera sector. By forming an opinion, government would allow itself to be represented *in* the franchise it represents, and thus permit itself a direct, interfering influence on the operational decisions and activities of the opera sector[7]. This would immediately contravene the *arm's length* principle (which we discuss in more detail in chapter 3). Government therefore sets out its *artistic value* requirements (which it demands in return for subsidy, fv) in the form of broad cultural strategy and policy goals for opera which leave companies free to experiment, which are given in advance of production, and which, on the output side, often involve proxy measures (i.e. not opinions) of *artistic value* such as degree of outreach or degree of innovation. These broad criteria are therefore another, and important facet of *artistic value*, but remain distinct from franchise opinion, av(o), which is formed via direct consumption of, or interest in, opera[8].

Now every franchise consists, in theory, of an active and an inactive element. In the context of our *artistic value* franchise of all UK citizens, there will be those, at any given time, who are actively interested in the artistic output of the UK subsidized opera sector (e.g. audience members, sponsors, friends' associations and producers themselves) and those who are not at all interested in the artform in its subsidized form. A key factor determining the vitality of such a franchise (measured by the proportion of active franchisees) is the degree to which franchisees have, or perceive themselves to have, influence over the agenda in question; here the artistic policy of individual subsidized opera companies and of the subsidized sector as a whole. To what extent does opinion count?

The degree to which franchisees can participate in shaping the *artistic value* agenda of the UK subsidized opera sector (e.g. influencing its repertoire, resource base, infrastructure and general modus operandi) will not only have a strong influence on the vitality of the franchise, but will ensure that the artform itself is able to evolve around the needs of its franchise, and so grow in artistic strength. As it becomes enabled by a stronger, more active franchise, an artform grows in cultural significance. But for this to happen producers must permit change in the artform through the influence of the franchise. To what degree, then, does the franchise have influence? This we can test to a certain extent by examining the financial reports of companies from the point of view of degree of accountability and transparency.

What the model predicts here, however, is that amongst those currently active in the franchise, producers, who are able to weight and filter opinion, av(i)*δ, have ultimate say about the artistic policy of the sector. This producer power is unchecked by government, G, because government cannot itself be represented *in* the franchise, av(o), without contravening the *arm's length* principle of arts funding which governs its intervention in the sector. This suggests that there is little opportunity for the artform to evolve in response to the opinions of current consumers, let alone those potentially interested consumers and producers of opera who, either because they cannot influence the *artistic value* agenda of the sector, or because they are simply not interested in opera in its existing form, are currently inactive within the franchise i.e. as current non-consumers or non-producers are not contributing to av(o). This potentially interested but currently inactive component of the *artistic value* franchise can attempt to influence subsidy policy, G, by making its opinions known to the Arts Council (as government agent), but since government chooses to disqualify itself from making *artistic value* judgments, av(o), such opinion will simply be referred back to existing producers, who will have final say. The model suggests, therefore, that it is difficult to vote out (by weight of opinion) current opera managements and infrastructural arrangements because producers possess, in effect, ultimate and unchallengeable authority about the *artistic value* input requirements of the subsidized sector. We will examine this issue again in chapter 3, when we discuss the problematic rôle of market signals and of paternalism in the context of the *merit good* model of value. For the moment, in order to pursue the issue of franchise influence, we need to refine our transaction model by considering the behaviour of *artistic value* and *financial value* together.

2.4 Behaviour of financial value and artistic value in the system comprising opera, value, and the environment

In the transactions which take place between the opera company and parties in the environment (which include not only its consumers, but its resource suppliers also) *artistic value* and *financial value* exhibit inseparability. By this we mean that no single transaction can occur without that transaction, or trade of values, in some way involving *artistic value* and *financial value* issues. This inseparability can manifest itself in obvious ways e.g. government subsidy is not unconditional, but carries with it certain artistic obligations, such as providing professional standard performances (*artistic value*) at reasonable ticket prices (*financial value*) to an audience which may be dispersed across a wide geographical area and therefore require the company to plan and budget for mainscale touring (*artistic value* and *financial value*).

This subsidy transaction, in turn, will influence, to a certain degree, the transactions which the opera company makes with its suppliers and its personnel in order to meet these, albeit broad, subsidy conditions e.g. overtime, and travel and subsistence costs (*financial value* flows) associated with mainscale touring will be unavoidable as long as there exists an (*artistic value*) mandate to tour and to undertake outreach work.

Equally, the decision to accept an overseas tour date (involving a transaction with an overseas local government, for instance) which the company may feel has *artistic value* benefits such as enhancement of its international reputation and access to new audiences, will necessarily involve some alteration to its domestic season (see for instance, English National Opera results chapter 8). It will, for instance, either have to cut short its domestic season (output) in order to travel abroad (an *artistic value* issue for home audiences and for government since access and opportunity will be reduced), or it will have to alter production budgets and schedules (*financial value* issues for management and suppliers, *artistic value* issues for the company) in order to accommodate the special opportunity afforded by the overseas visit. (Note, in practice companies tend to showcase only specific repertoire or special productions overseas).

By studying company financial reports, we can gain some insight into the nature of the trade-offs between *artistic value* and *financial value* which are the result of this inseparability. In particular, we can test for constraints on *artistic value* choices, av(i), which are the result of *financial value* decisions e.g the effect of theatre acquisition on audience development and repertoire choice.

Inseparability can also manifest itself in more subtle ways and in ways which are experienced by individuals and groups within the environment. The concept of opportunity cost, the cost of not investing in some alternative opportunity, illustrates this. Whether or not an individual pays for a ticket or receives a complimentary ticket, attending a performance, in the context of a money economy, will necessarily involve some cost to the individual. This cost is not simply the cost of an opera ticket, but the cost of not spending the ticket money on some alternative activity or the cost of not saving the money for future contingencies, or if the ticket is free, the cost of the individual's time and travel. Note, for the purposes of our model, the transaction or trade of values does not always need to involve an immediate or direct exchange of property rights. Receipt of a complimentary ticket still involves a trade of values insofar as the company values the presence of the ticket holder, and the ticket holder still has access to the performance (i.e. access to *artistic value*). This is a transaction in the sense used in marketing: the ticket holder gives up his or her time, which in a money economy, has a cost e.g. cost of travel, baby-sitter, or the cost of not attending some other event on the same night, and the opera company forgoes a portion of its immediate box office income with the hope of generating some future *financial value* in return. Ultimately, the company will still seek *financial value* from a transaction such as this, but will do so indirectly e.g. the complimentary ticket given to the critic whom it hopes will give a good review and so boost ticket sales.

The point about inseparability in this latter sense is that it can affect the repeatability of transactions made between the opera company and parties in the environment. The repeatability of emergency deficit funding transactions with government is a prime example here. Why should government come to the rescue of an ailing opera company again and again, when other, essential public services could benefit from the same investment? Whatever artistic or social value might arise from saving the opera company, has to be weighed in terms of opportunity cost.

In the following model (Figure 2-3) we now describe the behaviour of both *artistic value* and *financial value* as the two key variables within in our system comprising *opera*, *value* and the *environment*. Again, the model shows a single transformational stage, together with a single feedback loop and a single input driver (in this case, government subsidy plus government policy goals for opera). The *planning operator*, which allows us to model opera company policy and planning decisions as a single factor, now combines the relation of budget to available resources and the relation of producer opinion to consumer (artistic value franchise) opinion.

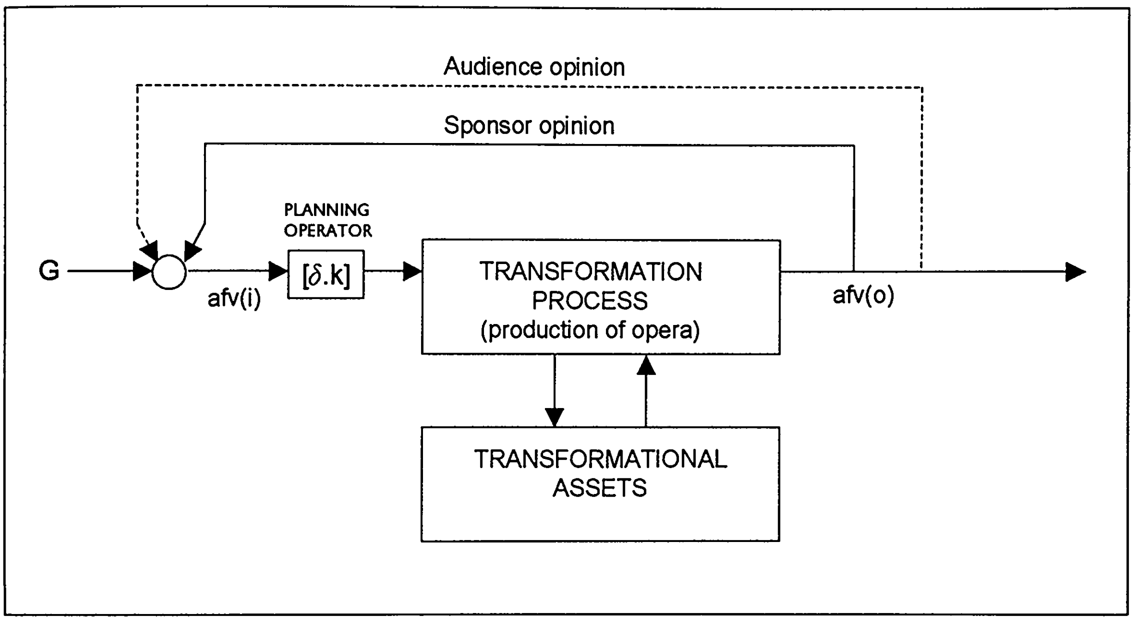


Figure 2-3 : *Behaviour of artistic value and financial value*

Where:

G = The given amount of government subsidy together with government cultural strategy and policy goals for the opera sector, as set out by the Arts Council of Great Britain, for the financial year ahead.

afv(i) = The superset of all *financial value* and *artistic value* inputs. This represents the total income, consisting of government subsidy for the year ahead, plus previous year's net income from operations and the release of (transformational) assets, G+fv(o), which is available for consumption in the financial year ahead, together with the sum of potential influences (government policy plus *artistic value* franchise opinion about output, G+av(o)) on the *artistic value* goals of the company.

afv(o) = The superset of all *financial value* and *artistic value* outputs. This represents net income from operations and any release of stored *financial value* (i.e. assets) from the previous financial year, fv(o), together with the aggregate of *artistic value* franchise opinion about the output of the company over the financial year, av(o).

[δ.k] = Planning operator (consisting of coefficient, k, and filter, δ) representing management's decision as to the proportion of available income, fv(i)*k, it wishes to apply to the production of opera, together with its decision concerning the degree and extent of *artistic value* franchise opinion, av(i)*δ, it wishes to acknowledge and act upon in the production of opera in the financial year ahead.

Inseparability of artistic value and financial value, and franchise influence

In our model, transactions are important insofar as they determine the start and end conditions for the adding of value in the transformation process. The model suggests that there is a mutual, reciprocal and balanced trade of values: that because franchise members in buying tickets or in sponsoring productions supply the opera company with *financial value* input, fv(i), that in the medium- to long-term, the opera company will attempt to deliver *artistic value* according to franchise tastes and preferences (opinion), av(o). The model suggests that it is in the interests of producers to respond to audience and sponsor (franchise) opinion, since it relies upon the repeatability of its transactions with franchise members such as these for a portion of its future *financial value* needs.

However, because the opera company's diet of transactions varies in terms of volume, value and ease of repeatability (certainty), the level of influence of different franchise groups will also be expected to vary. To this extent, the model predicts that sponsors (with whom the opera company has a low volume of high value transactions) will have greater influence than audience members (with whom the opera company has a high volume of low value transactions). This predicted difference in responsiveness can be tested by seeking evidence in the qualitative data which accompanies company financial accounts, and by looking for evidence of accountability and transparency in the reporting, as a whole, as an indicator of openness and responsiveness. A franchise which cannot gain adequate insight into the artistic and financial decision making of its public service provider is an unempowered franchise: one which cannot influence the agenda (here artistic and financial policy) in which it has an interest.

Interestingly, what the model does not predict, but can explain, is the rôle or influence of external parties (e.g. private, wealthy individuals, and public sector body representatives) who enter into transactions with the opera company, but who also enjoy privileged access to the opera company's transformation process i.e. whose transactions are internal to the organisation and are therefore not visible or transparent to the rest of the *artistic value* franchise. As we show in the research chapters of this study, board members who also fund an opera company (i.e. have a directorial interest in its operational affairs and are part of the planning operator, δ) are a significant feature.

The determinants of value

Value is not determined within our transaction model on an objective basis. Although *financial value* in isolation may be measured objectively via audited financial accounts, value is realised in the transactions which take place between individuals and groups within the environment. For instance, although financial accounts provide objective measurement of *financial value*, individuals can still qualify these measures according to subjective criteria. A financial loss, whilst objectively stating the relationship between income and expenditure, can be regarded with varying degrees of significance according to context, sensitivity of the individual or group to losses, risk assessment, forecast of future earnings and predictability of the environment etc. Because we regard value as a subjective matter, as a matter of perception, we do not draw upon cost-of production theories of value such as the labour theory of value (in any of its interpretations) since such theory attempts to determine value as an objective quality of the process of production e.g. as the value (e.g. cost) of labour expended in production. We have already shown that the adding of value in the transformation process (crudely, the summing of input values) is not equivalent to its realisation in the transaction[9].

This is important, for whilst the quantity of labour expended on opera production is of significant interest, its rôle as a determinant of value is both complex and non-linear. Indeed, the rôle of artistic and other labour in the process of producing opera is itself a function of perception: how many people *does* it take to produce an opera; are there any limits; do more people (with relevant skills and expertise) necessarily mean more value? We might appear to be adding value, but is it realisable? Do franchisees and government get more *artistic value* for money? Could the same value be achieved at lower cost; and who determines this, producers or consumers?

Specifically, we are interested not in the absolute quantity of labour required to produce opera in the long-term, but in changes in the relative quantity of labour required over time both within and between companies. Since opera production involves both long lead times and a relatively small quantity of finished output or performances per year or season, we can measure labour intensity in person years rather than hours. These changes are of particular interest to us precisely because the output of the UK subsidized sector shows, in historical terms, a relative fixity - it is both static in terms of quantity of output (number of performances) and relatively fixed in terms of repertory (although new works are constantly entering the international standard repertory, because of the fixed nature of the opera infrastructure (we show this for the UK) these new works tend to demand or utilize the same types and levels of artistic resources (e.g.

an orchestra in a pit, a cast of principal singers, and a chorus of perhaps 30 to 60 people).

The idea of productivity (improving factor efficiency in producing substitutable units of output) is not a meaningful concept in the context of UK subsidized opera. Firstly, opera is non-standardizable: whilst we measure output in terms of number of performances, a performance is not a unit (no two performances are identical and therefore do not exhibit substitutability). Secondly, government's objective in subsidizing opera is not to create more output at lower cost (profit and market penetration are null issues here), but to maintain value in an artform which has been developed over several hundred years and in which the fundamental artistic resource requirements (necessary factor inputs and technology of production) have shown little appreciable change.

The technology of production (in terms of factor inputs) is to a large extent determined by the composer's score, and since the international standard repertory of opera still consists of a large proportion of eighteenth and nineteenth century works, inter-factor comparisons as measures of intensity and ultimately productivity are largely irrelevant. We are not interested in the substitution of capital for labour (relative capital intensity) or in labour for capital (relative labour intensity) since conventional measures of intensity such as these imply fundamental changes in technology and by implication, productivity.

For this reason, we adopt two measures of factor intensity which permit not inter-industry comparisons, but measures of the way in which producers believe value is or can be added in the production of opera. In the context of this study, labour intensity is therefore a measure of technical elaboration (i.e. adding to the quantity and/or sophistication of artistic and financial inputs in such a way as to increase the complexity of the production process e.g. computerised lighting which requires added technical support); and financial intensity is therefore a measure of the total financial resources, in terms of financial flows (income and expenditure) and financial stores (assets and liabilities) applied in the production of a single performance.

Our measures invite important questions. Why, for instance, is it necessary to devote more and more financial resources to opera production, when output remains relatively static in historical terms? Is it the result of change in the environment (e.g. inflation) or of change in the way opera is produced; and what does this mean for financial efficiency and for issues of equity - is it fair on the franchise; is more value necessarily added when we simply consume more *financial value* input, fv(i), and engage more and more labour in order to produce the same or similar repertoire as we did twenty, thirty, or even one hundred years before? The model does not predict that significantly more labour should be required over time in the production of opera precisely because although new works are constantly entering the standard repertory, required resources are to a large extent similar i.e. determined by the fixed infrastructure of UK subsidized opera. It is not within the power of a composer, commissioned by a major subsidized opera company, to change these resource variables in any significant way e.g. scoring for an ensemble of six players when the salaries of an inhouse orchestra still have to be paid and justified (recovered).

Value is what individuals and groups within the environment believe it to be. The measurement of value is therefore a question of the measurement of perception.

2.5 Summary

Our fundamental concern in the transaction model is with the ability of real individuals and groups within the environment to influence the transformation process of the individual opera company (or sector as a whole). Our concern is with *political* economy and the distribution of power in the context of democratic market economy. By focussing on transactions as the mechanism through which value is realised and by which the transformation process, and therefore future output of the individual opera company, may be influenced or modified, we concern ourselves with power structures and with questions of equity (inclusiveness of the *artistic value* franchise) and with questions of efficiency (maximizing value to an inclusive *artistic value* franchise).

In the following chapter we discuss those models and theories pertaining to value in opera which currently exist, either explicitly or implicitly, within the environment. This enables us to examine the nature of the transaction or trade of values which occurs between the subsidized opera sector and government (as its mainstay source of funding). Our discussion focusses on the UK.

3. EXISTING MODELS PERTAINING TO VALUE IN OPERA

3.1 The powerhouse model

The UK Arts Council was founded in 1945 by John Maynard Keynes (Lord Keynes), under whose chairmanship it adopted an interventionist approach. The thrust of this approach was that maintenance of the best (by state support) improves the whole (for background see Pick 1986).

In 1940s Britain, government strategy consisted of a range of Keynesian demand management measures: continual pump-priming through public spending increases and tax cuts. Now the key tenet of Keynesian theory is that competitive equilibrium is a logical impossibility; that a market economy cannot reach an optimal outcome of its own accord (for discussion of optimality see section 3.4). Crudely, we can summarize this to mean that without state intervention, opera, and the arts in general, were believed unlikely to make their way in the market, not least because of uncertainty in the future. Keynes saw government's rôle as a counter to the short-termist nature of private sector (particularly stock market) investment. To Keynes, the state was better able *to calculate the value of investment on long views* and to take on an *ever greater responsibility for directly organising investment* (Keynes 1936:164). This is the backdrop to development of what we may term the *powerhouse* model:

> *The Arts Council believes...that the first claim upon its attention and assistance is that of maintaining in London and the larger cities effective powerhouses of opera, music and drama; for unless those quality institutions can be maintained the arts are bound to decline into mediocrity.* (ACGB 1956a).

The first such *powerhouse* for opera was created in 1946 with the establishment of the Covent Garden Opera House (which became the Royal Opera House in 1950) as a *national* institution (Pick 1986:47). It was to be assisted by central government via the fledgling Arts Council (ibid Pick 1986:49) and headed what was, in effect, a nascent subsidized opera sector (Sadler's Wells Opera, active at that time, became English

National Opera in 1974, and Welsh National Opera and Drama company was founded 1946)[1].

The *powerhouse* model can be characterised as a form of direct intervention by central government. It is designed to distort the opera infrastructure in a specific way and does so by means of a deliberate bias in the disbursement of public subsidy towards a nominated *powerhouse* company. This *powerhouse* is designed to act as a kind of engine; its purpose, to drive *artistic value* through the opera sector as a whole. Inevitably this produces a hierarchy (viz national and regional companies) and suggests that the ideal opera infrastructure is one characterised by a core *powerhouse* which sets and drives *artistic value* standards through a cohort of satellite or *follower* companies. Since this is a mechanistic model of value, we will find the *driver-follower* model, used in mechanical engineering to describe the relationship between gear wheels, a simple and helpful analogue[2].

Historically, the *powerhouse* model, as developed in the UK, can be viewed as a response to a discontinuity in the socio-economic environment. In the austerity years immediately following the Second World War, without a public intervention mechanism to support the production of live opera, it was thought unlikely that opera production would arise spontaneously, let alone flourish. The pattern of private patronage of opera, typical of the pre-war years, was not expected to restore itself in such an economic climate.

The years between 1945 and 1951, however, saw the establishment of the majority of the UK's nationalized industries (for background see Pappas et. al. 1983), and it is in this historical context that Covent Garden was set up as a *national institution* i.e. the *powerhouse* model was the natural outcome during a period in which public ownership of major assets was perceived as expedient. Because these nationalized industries were designed to operate within a framework of commercial and non-commercial or social objectives, it was believed that they would automatically act in the public interest. But, whilst the need for these industries to act in the *public interest* was often cited at the time, the means by which this was to be achieved was not defined in operational terms (ibid. Pappas et. al. 1983:499). This left scope for considerable ambiguity and financial inefficiency in the operation of publicly owned assets in general.

Despite an isolated government White Paper in 1961 which aimed to tighten up *the financial and economic obligations* of the nationalized industries (CMND 1337/1961) a spirit of minimal and vague performance guidelines continued into the late 1960s (Pappas et. al. 1983:502). It is in this climate of relative operational autonomy that we must view the establishment of Covent Garden as the Royal Opera in 1950. During its nascent years, the *powerhouse* model was not subject to close economic scrutiny: it was possible to talk of *artistic value* without the overt requirement to tie this into measurements of *financial value*. The transaction between government and the *powerhouse* opera company was thus loosely defined; government did not place strict conditions on the type of *return* expected, and neither was there a perceived need for accountability.

The creation of the Royal Opera as a *national institution*, and *powerhouse* of opera, although designed as an act of beneficence by the post-war government, could not at the same time be said to represent the public interest in any obvious sense. Indeed, since the majority of the populace of Britain at that time did not travel, possessed on average relatively little disposable income, and did not have leisure time as we understand today, this *national institution* could only have been accessed by a London or Home Counties audience i.e. a relatively small minority. The *powerhouse* model, then, was not established on the basis of any clear egalitarian goals such as we see in the case of *public service provision* (see section 3.2).

The *powerhouse* model, then, presents something of an anachronism in the context of a democratic society. In choosing to intervene directly to stimulate production of live opera in Britain, the post-war government did not seek value in the form of access or outreach (the kind of proxy measures of *artistic value* with which we are today familiar) but something more intangible. Indeed it might be argued that the government of the time sought less a *national institution* than a *national icon.*

The *powerhouse* model shows the following characteristics:

- *1) Assumes a direct relationship between artistic value and financial value:* The *powerhouse* is designed as the engine which drives *artistic value* through the opera infrastructure. As the engine, it receives the greatest share of public subsidy. This is a mechanistic approach i.e. it is assumed that the engine receives the fuel (*financial value* input) and that the more fuel the engine has, the greater its output (here *artistic value*). The model, however, does not imply any measure of efficiency (measures of efficiency relate inputs to outputs). It is quite possible for the engine to work at less than optimal efficiency (e.g. producing *artistic value* at a greater financial cost than is necessary) and in the long-run, to burn itself out. The *powerhouse* model thus assumes, but does not test for, technical efficiency. It also reflects the belief that the more generously the *powerhouse* is supported (fuelled) the greater its value driving ability.

- *2) Self-fulfilling funding structure: Artistic value* is equated with reputation or position in the *powerhouse* hierarchy and funding patterns become self-fulfilling e.g. subsidy is awarded on the basis of reputation, and reputation is gained on the basis of past subsidization. This funding structure, once established, tends to impede formal innovation (except on a small scale, or by major private sector entrepreneurs e.g. Raymond Gubbay Earl's Court opera productions). New ventures have to fight against established interests (the *powerhouse* and its *followers*) as well as government confidence in the infrastructural stability which the model produces. In political terms, supporting a new and risky venture at the cost of letting an existing inefficient one fail is not attractive. Undoubtedly, it also calls into question the validity of the *powerhouse* concept itself: if the *powerhouse* model is valid, there should be no need to seek *artistic value* alternatives.

- *3) Creates a hierarchical infrastructure*: This distorts the basis of competition and sets up the myth that the company receiving the greatest amount of subsidy, the *powerhouse*, must represent the pinnacle of *artistic value*. A more fragmented infrastructure would produce a different expression of competency amongst players e.g. the labels *international*, *national* and *regional* (funding culture terms which are largely arbitrary) might cease to have meaning under a different model. In the *powerhouse* model, the definition of *artistic value* is predetermined by market structure, and *artistic value* becomes equated with institutions: the infrastructure determines the *artistic value* agenda of the opera sector and not vice versa. The value produced, then, becomes a function of the infrastructure rather than the infrastructure a function of the value produced.

- *4) Creates an oligopolistic market structure:* The *powerhouse* opera company and its closest *followers*, in terms of subsidy award (see chapters 6 and 7), will tend to exercise disproportionate control of the *artistic value* agenda since collectively they will account for a major proportion of the public subsidy awarded to the sector in any one year. The *powerhouse* and its closest *followers* will enjoy the strongest purchasing power within the sector, will be able to buy in star directors and singers, and will thus define opera and the *artistic value* paradigms which determine its quality standards (see chapter 6). This creates unfair competition: small companies such as Opera East (now dissolved, see chapter 5) cannot hope to compete on a budget for budget basis. The *powerhouse* and its *followers* will also tend to share artistic and management personnel (key decision makers) thus homogenising the sector and the artform itself e.g. artistic directors take their style to the opera company; the opera company does not impose its style on them. This leads to lack of differentiation. At best, companies will differentiate on the basis of incremental differences e.g. opera in local language versus opera in original language, but issues of repertoire will depend on artistic directors who constantly move round the circuit every few years. The *powerhouse*-driven opera market will therefore tend to be an oligopolistic one, dominated by a few major companies. In this scenario, competition for resources, one means by which artistic standards may be raised, or driven through the infrastructure, may be negated.

- *5) May promote inefficiency:* The *powerhouse* effectively maintains a monopoly on resources (since it receives the greatest subsidy). This may breed complacency amongst *powerhouse* management as income seems secure and the environment stable i.e. the cost to government of letting the *powerhouse* fail will be high unless the political moment for its demise is perceived to have arrived. Management may begin to expect that government will at all times provide a safety net so that it can afford to prioritise *artistic value* without equal regard to *financial value* (i.e. treat *artistic value* and *financial value* as separable). Ultimately, the *powerhouse* may become acculturated to emergency grants and subsidies as a perceived natural privilege i.e. the *powerhouse* can predict a relatively secure income and so can afford inefficiencies in its conversion process (this is discussed in chapters 6 to 8).

By *directly organising investment* (ibid Keynes 1936) through public ownership of assets, industries, and here, the arts, opera may effectively be protected from uncertainty (short-termism in the financial market) and competition (exposure to which implies the need for financial and technical efficiency). But by isolating industries and the arts in this way, the ability of these industries to respond to external factors such as increasing cost of imported factors of production, is reduced. Because the industry is effectively isolated from the real economy in this way, its response is not to resist, but to absorb imported cost inflation (this is discussed in chapter 6).

- *6) Creates inequity in the distribution of public subsidy:* Unless the *powerhouse* opera company is permanently on tour, the *artistic value* it creates cannot be shared equally among taxpayers (i.e. audiences are not mobile, and art tourism is not a relevant factor here). A Verdi festival at the Royal Opera House will not be seen in Glasgow, and certainly not in the Outer Hebrides: its value can only be perceived indirectly. The only way *artistic value* can be driven through the opera infrastructure, and therefore reach all taxpayers, is by means of intangible factors e.g. the influence of scholarship, style, interpretation and so forth, on *powerhouse followers*. Much depends upon the ability and interest of producers (these *follower* companies) to take up the *artistic value* agenda defined by the *powerhouse*. However, because of distortion in the distribution of subsidy (the basis of the model), *followers* must either use less costly resources, or work at greater efficiency than the *powerhouse*. This will be true if we assume linearity in the relationship between *artistic value* and *financial value*. Alternatively, if we assume non-linearity (i.e. *artistic value* does not rise proportionately with increases in financial input) then *followers* may produce different *artistic value* agendas of their own. If this is true, it suggests that the *powerhouse driver-follower* model, at the very least, does not work as intended.

It is also interesting to note that the *powerhouse* model in the UK is something of an historical accident. It provides a practical illustration of the way in which *opera, value* and the *environment* are systematically linked. Indeed, had the UK (then, Great Britain) adopted the American post-war fiscal stance, which involved rigid economy in public expenditure, the opportunity to re-open the Covent Garden opera house as a *national institution* and *powerhouse* of opera might never have presented itself. As Galbraith points out, in the years immediately following World War II there was, in the USA, *a remarkable attack on the notion of expanding and improving public services* (Galbraith 1958:202). This is in part an explanator of why the Metropolitan Opera House, which receives only 2% of its income via public subsidy, has not evolved according to the *powerhouse* model. Thus, it may be a cultural icon, but it is not a *national institution* in the same sense as the Royal Opera House, Covent Garden. Where there is historical obligation to the public funding of the Royal Opera House (a sense that it must not be allowed to fail), there is no such perceivable obligation in the USA towards the Metropolitan Opera House. Arguably, the two houses have come to be valued in different ways. This we would predict because the transactional environments of the two houses are themselves radically different.

3.2 The public service provision model

The government 1965 White Paper on the arts (CMND 2601/1965) established the idea that the arts should be regarded as a social service alongside health and education. This led to creation of a new government post, albeit at junior level, of Minister for the Arts (see Waters 1989:73). Arguably, therefore, 1965 marks the historical point of establishment of what we may term, the *public service provision* model, in the context of the arts.

In the *public service provision* model, opera is provided to the public as part of a wide ranging, government funded arts or cultural service. It depends upon a devolved, *arm's length* principle of government intervention; the kind of indirect intervention which can be achieved when government chooses to distance itself from the day-to-day disbursement of subsidy, via the filter of specially appointed agents (here, the UK arts councils; for background see ACE 1996a).

Perhaps because the *public service provision* model in the context of the arts evolved in a pre-oil crisis, mass market environment (see chapter 5), it assumes universal demand i.e. that demand for opera, in proportionate terms, will be as strong in Shetland as in metropolitan London, given availability of supply (for discussion of 1960s mass markets see Kotler (1984) and chapters 4 and 5). Operation of the model is thus underpinned by the concept of *sufficient supply*: geographical regions are either *sufficiently* or *insufficiently* supplied with opera (see SAC 1988a:9).

The *public service provision* model in the context of the arts shows the following general characteristics:

- *1) Predicated on an egalitarian ideal*: The model is predicated on issues of equity (the egalitarian ideal of access for all). Issues of efficiency are entirely secondary to this ideal. The model depends upon the idea of citizenship i.e. the right to individuals as citizens to participation in society and the benefits of collective resources. It assumes the need for redistribution of resources as the necessary means by which to control equity or fairness (normative concepts) i.e. the greater the desired degree of equality of living standards, the greater the redistribution of income and wealth through transfer payments and taxation (for discussion see Bailey 1995:52). Specifically, the model equates provision of opera for citizens (i.e. access to opera) but not necessarily consumption of opera by citizens with equality of living standards.

- *2) Measurement of artistic value by proxy:* The *public service provision* model inevitably creates an obligation to meet distributive goals (access and outreach) as a matter of priority. A government which elects to provide a public service must ensure that provision is made to all citizens on a per capita basis. Distribution of resources will therefore be driven by geographical factors (according to population densities for instance) and will create the need for a devolved structure capable of delivering the service to rural as well as metropolitan areas. Questions of *artistic value* and of adaptation or localisation of opera to particular markets are entirely secondary to this distributive goal.

The measure of value implied in this context is quantitative (access and outreach measured in terms of audience reach). This measure of provision (quantity) acts as a proxy for the measurement of *artistic value* (quality) which, apart from being qualitative in nature, is not measurable by government without implying political intervention (i.e. violation of the *arm's length* principle). In the context of democratic market society, government cannot be seen to be the judge of individual tastes and preferences in matters of art and culture. In *public service provision* in the context of the arts, then, distributive goals supervene quality goals: the emphasis is primarily on delivery or provision rather than service quality per se. Thus quantity of opera provided and *accessed* is, in effect, equated with quality of opera delivered: quantified measures of provision as a proxy measure of quality.

- *3) Assumes equality of demand:* because the model assumes that citizens throughout the UK will share the same tastes and preferences in opera, there is a distinct possibility of vertical inequity i.e low-income groups funding a service to which they may have access, but no interest or use, an outcome which benefits high-income groups (for background see Bailey 1995:220). Socio-economic stratification of consumption may increase this over time e.g. opera may become identified with a particular socio-economic grouping of consumers, an identification which may become self-fulfilling. Because the model assumes equality of demand or need, for opera there is a danger of paternalism. The model therefore has to be run in the context of a portfolio of alternatives (i.e. public choice across different artforms) in order to cater for differing tastes and preferences. Nevertheless, because subsidy decisions are left to professionals within the various UK arts councils, in an as yet closed decision process, the model is still inherently paternalistic. Although the Scottish Arts Council, for instance, plans to hold its first open meetings in January 2000, it is not at all clear whether public discussion of funding applications (currently regarded as confidential) will or will not be invited (see for instance SAC 1999:6). In practice this makes the defence, that subsidy in the *merit good* model is not simply distributed by *high-minded mandarins claiming to know what is best for a population*, seem less than convincing; a defence which was made, notably, over twenty years ago by Netzer in his classic study of US public support for the arts (Netzer 1978:166).

The *public service provision* model, then, is provision- and measurement-led. In the same way as Local Enterprise Companies (LECs) in the UK are required to distribute funds to assist the business community, so the arts councils must disburse funds without saving significant proportions of these funds or budgets from year to year. This requires the creation of schemes which possess easily measurable success criteria (otherwise funds could not easily be awarded or distributed). A LEC may choose to support a particular industry sector in one financial year, but in order to allow sufficient businesses to qualify for support, may need to set arbitrary qualification variables (e.g. whereas, it may be more efficacious to provide capital input, a LEC may feel that the effectiveness of such support is too difficult to measure, and therefore may set up marketing or promotion schemes, which in reality may have only a marginal benefit to individual businesses or to the particular industry sector as a whole). Thus it is not always customer wants or needs which drive the *public service provision* model, but ease of *service provision* measurement. It is also more difficult, when funding decisions are so devolved, to operate a strategic policy.

Outcomes thus tend to be tactical rather than strategic. Arguably, this also builds in a degree of inefficiency as the system may become self-fulfilling. Because the model normalises the qualification criteria (e.g. all opera companies may apply for funds for new commissions) organisations seeking funds will start to build in a conditioned response: a search for innovation will produce a response to find innovation, whether or not this is appropriate for the individual organisation or the sector as a whole.

As we have seen, the primary assumption underlying the *public service provision* model, then, is that opera should be provided in the same way as, for instance, a library service i.e. according to relative population densities (for an example of this type of approach see AC-OSG 1985). But such fixed segmentation of the opera market (i.e. using demographic criteria) takes no account of the fitness of the opera products for those markets i.e. it does not accommodate changing tastes and preferences but treats opera as a generic. Indeed, the model calls to mind the idea of *cultural mission*[3] used in the context of arts subsidy debate in the USA in the 1960s (Rockefeller Panel Report, cited in Salem 1973:65). Here, the emphasis is on value as defined by producers, and not consumers: demographics do not answer the question of perceived need. Interestingly, we may note here that in the USA, the value of demographic audience research has already been questioned (e.g. Schreiber 1985:40). This is because demographic data does not inform us about the perception of value by audiences, it does not inform us about tastes and preferences in the context of opera.

The homogeneity of supply resulting from this assumption of *universal* demand (see above) may create problems for small touring outfits such as Scottish Opera's Opera Go Round, which may be perceived as high value in some venues and not in others depending on the particular potential audience. What is suitable for a village hall may not be equally suitable for a growing county town theatre where the opera offering suffers comparison against alternative theatrical offerings, and where there exists an audience of growing sophistication.

This is not to say, however, that the *public service provision* model cannot be adapted to different transactional environments or market segments (this is discussed in chapter 8). This emphasis on provision over *artistic value* is not structural and can be overcome by the use of different devolvement structures. Sub-contract, licensing, and other market mechanisms, for instance, raise the potential for variety and greater product localisation, not least through the lowering of barriers to new and or local entrants. Potentially, there are many ways of modifying the idea of *service provision* for different environments, but in its current form, the structural defect of the *public service provision* model is that it tends to promote measurement of *artistic value* by proxy.

3.3 The productivity lag or cost disease model

The notion that live performing arts (such as opera) suffer a fatal *productivity lag* vis a vis other sectors of the economy, thus causing them to face a situation of ever rising unit costs, forms a central if disputed idea of cultural economics. Indeed, the idea, first explored by Baumol and Bowen (1966) is summarised and presented as an established fact in Heilbrun and Gray's standard text, *The economics of art and culture* (1993), which represents one of the first such texts on the subject and which is addressed not only to students of economics but to prospective arts managers also. We include it here not because it is a model of value per se (it is no longer employed as a justification for government support of the arts) but because it is still considered a powerful explanator of rising costs in the arts, and, significantly, because it attempts to do this by treating *artistic value* as an exogenous given. From our point of view, the *productivity lag* or *cost disease* model is important because any explanation of costs in the arts must, according to our transaction model, also constitute an explanation of value (see again chapter 2).

Heilbrun and Gray summarize the *productivity lag* argument as follows: *costs in the live performing arts will rise relative to costs in the economy as a whole because wage increases in the arts have to keep up with those in the general economy even though productivity improvements in the arts lag behind* (ibid. Heilbrun and Gray 1993:126). However, we do need to examine the assumptions and workings of the model more thoroughly in order to assess its validity as an explanator of the real world.

The model is concerned with two general relationships: a) that between productivity (output per man-hour) and costs; and b) that between costs and income. The model is predicated upon three main observations:

> *Observation one* : The observation that the technology of performance is stagnant, thereby causing the productivity (output per man hour) of the performing arts to lag behind that of other sectors in the economy:

Though there have been improvements in lighting facilities, in the methods used to shift scenery and in a few other peripheral areas, the basic character of performance itself has stayed much the same. The playing of an instrument or the acting of a rôle remains today largely what it has been for centuries... Whereas the amount of labour necessary to produce a typical manufactured product has constantly declined since the beginning of the industrial revolution... no one has yet succeeded in decreasing the human effort expended at a live performance of a 45 minute Schubert quartet much below a total of three man-hours. (Baumol and Bowen 1966:164).

Thus, observation 1 : productivity in the live performing arts lags behind that of other sectors in the economy.

Observation two : The observation that: a) in order to avoid erosion of relative incomes, wages in the live performing arts will rise in line with those in the wider economy; and b) because of the *productivity lag*, such wage pressure will cause unit costs in the live performing arts to rise. To be clear, a standard measure of productivity is the total cost of labour required to produce one unit of output. Productivity is important because a rise in compensation or wages may be offset by a faster rise in productivity, thus leading to a potential drop in unit labour costs e.g. where wages (per hour) rise by 2.9% and productivity (output per hour) rises by 3.2%, unit labour costs will drop by 0.3%. If as the result of productivity bargaining (negotiating wage increases on the basis of such productivity increases) the manufacturing workers in the above example can secure a wage rise each year, the standard of living of our string players, assuming a fixed remuneration, will fall behind. Now the assumption in the *productivity lag* model is that wage increases in one sector (here manufacturing) will be emulated by other sectors (as here, the live performing arts) even though these other sectors lag behind in terms of productivity. In other words, we can expect the wages of our string players to rise in line with average earnings but, because of the *productivity lag*, that this wage pressure will result in an upward pressure on unit costs. Moreover, even if wages in the live performing arts do not in practice keep up with average earnings (for evidence see Towse 1993) any increase, no matter how small, will still increase unit costs because of the *productivity lag*:

If the earnings of [our] *string players increase by 4% per year while their productivity remains unchanged, it follows that the direct labour cost per unit of their output must also rise by 4%, since cost per unit is equal to total cost divided by the number of units of output. If in a forty hour week the string player provides just as many performances as he did the previous year* [because he cannot improve productivity], *but his wage is 4% higher, the cost of performance must have risen correspondingly* [in contrast with the manufacturing sector in which productivity increases will have offset such cost pressure]. *Moreover, there is nothing in the nature of this situation to prevent the cost of performance from rising indefinitely at a compound rate* [hence *cost disease*] (Baumol and Bowen 1966:169).

Thus, observation 2 : Rising total labour costs combined with a *productivity lag* will result in ever rising unit costs in the live performing arts.

Observation three : The observation that because of a largely unavoidable lag in the rate of increase in ticket prices (relative to the rising costs posited above), earned income in the live performing arts will be unable to keep up with costs, thus causing an income gap. For the reasons given below, Baumol and Bowen also consider this pricing lag (our term) to exhibit certain elements which may be considered structural and therefore not the fault of management. According to Baumol and Bowen three basic influences can be expected to restrict the rate of increase in ticket prices (1966:172):

> *1. The disinclination of individual arts organizations to raise their prices on moral grounds;*
>
> *2. The place of the arts in the ticket purchasers' hierarchy of necessities; and*

3. The forces of competition

> Thus, observation 3 : Ticket prices rise, unavoidably, at a slower rate than inevitably rising costs, thus causing an income gap in the live performing arts which is not the fault of management.

Thus, Baumol and Bowen put forward the thesis that there is a tendency for costs to rise and ticket prices to lag in the live performing arts which is *neither a matter of bad luck nor mismanagement* (1966:162). In other words, that the income gap brought about by productivity limitations (and pricing limitations) in the live performing arts is a chronic (i.e. structural) phenomenon. For the sake of clarity we can summarise the model and its outcome as follows:

> The income gap which characterises the live performing arts is the result of:
>
> a) productivity limitations, which make it inevitable that unit costs will rise, and
>
> b) pricing limitations, which, because they may be regarded as unavoidable, cause ticket price rises to rise at a slower rate than unit costs, thereby
>
> c) making it impossible for organizations in the live performing arts sector to operate on a viable basis without the cushion of necessary subsidy.

Significantly, this is not a moral, but an economic argument in favour of public subsidization of the live performing arts.

Now, there is an important consequence here: for by treating the *productivity lag* so described as an empirically defined structural problem or special feature of the live performing arts, the question of public subsidy justification becomes easier to address. In short it allows us to argue that arts organizations such as opera companies will inevitably face *unremitting financial pressure* (Heilbrun and Gray 1993:133) and will do so not by fault of their own but because of the effect of purely external factors over which, individually and as a sector, they cannot possibly have control (hence *cost disease* e.g. Mokre 1996). In this way, the justification of public subsidy, here based on an economic argument, comes to underwrite or endorse a more simplified moral argument: *opera is expensive and cannot help being so, therefore if we value it as part of our heritage or as part of our ongoing artistic traditions, then we must subsidize it i.e. not to do so would amount to wilful neglect of our own culture since opera would, as a result, either decline in quality or die.* (e.g. Milnes 1993:635).

However, the seeming internal consistency of the *productivity lag* model is beguiling and it is all too easy to become seduced by the elegant mechanics upon which it relies. Whilst the idea of increasing productivity in order to overcome rising unit labour costs is extremely important in principle, it is only relevant in situations where direct labour costs form a significant proportion of total costs (we will discuss the issue of cost components below). We will demonstrate that it is in this area (cost components) and in the area of value and pricing that the model, which was developed in 1966, betrays its outdatedness. Some thirty years have elapsed since the first statement of the *productivity lag* model, and whilst Baumol and Bowen, as its authors, cannot be expected to have foreseen the changes which have occurred in opera and the environment in that time, later commentators and those such as Heilbrun and Gray (1993) writing standard texts should at this point have re-evaluated the model in the light of new evidence and understanding. Instead, we find the model still being used as a criterion of policy analysis e.g. in Austrian lyric and dramatic theatre (see Mokre 1996 and Corr. 1997b). Moreover, in his discussion of aesthetics and economics, Mossetto (1993) refers to the *productivity lag* model as *Baumol's productivity law for artistic markets* (Mossetto 1993:205).

In the light of new evidence and understanding, then, we can lay out our objections to the *productivity lag* model as follows:

- *Objection 1* : The observation that productivity improvements are difficult to achieve in the live performing arts is based solely on the technology of performance (a direct labour cost orientation) and ignores the increasing importance of what we may term *establishment costs* (e.g. rent, utilities, marketing, finance, administration) and *development of production costs* (e.g rehearsals, set design and build, wardrobe).

Briefly, a direct cost is one which can be allocated directly as a whole item to a cost centre or a cost unit (Sizer 1985:72)[4]. Direct costs in the context of opera are those which can be specifically identified with an individual performance (i.e. the performance of a production, where the production itself represents an investment in future performance activity).

Now the main problem with the *productivity lag* or *cost disease* model is that it focusses solely on direct costs i.e. those costs which vary directly with each unit of output. As we saw above, the *productivity lag* model fails to account for establishment costs such as administration, marketing and development of production costs which constitute an investment in future performance activity. As we will demonstrate, the ratio of the main cost components has been changing over time since the *productivity lag* model was first stated (see chapter 6). Indeed, Baumol and Bowens' data contain portents of these changing trends:

The general conclusion to which the... evidence leads is that rising costs of performance can certainly not be laid to increases in performers' wage levels alone. Cost increases have been pervasive and have affected almost all categories of expenditure. (Baumol and Bowen 1966:217).

The miscellaneous category of production costs [in the context of Broadway theatre data] *has also risen sharply since 1928. At that time it was made up entirely of props and electrical and sound equipment, but more recently managerial expenses, press agent salaries* *and legal auditing fees have also become items to be reckoned with.* (Baumol and Bowen 1966:214).

Thus Baumol and Bowen posit only economies of scale (i.e. lengthening production runs) as a productivity improvement option, whereas, in fact, many of the options they dismiss (as do Heilbrun and Gray) have now become relevant.

Thus our first objection to the *productivity lag* model is that it fails to take account of changes in the components of total cost.

- *Objection 2* : The productivity model assumes linearity in the relationship between *artistic value* and *financial value (*by equating quantity of *financial value* input with quality or *artistic value* output). Towse, whilst making the point that today there are in fact a variety of ways in which direct labour productivity improvements can be made, touches upon this very issue:

The type of technical constraint usually mentioned in connection with the Baumol and Bowen thesis is that 'Aida' cannot be performed without an 'Aida' and a Beethoven quartet cannot be performed with only three players, these being examples, albeit overdone ones of increased labour productivity. While this is patently true, there are labour-saving changes that can be, and have been, made. For one thing, 'Aida' is not the only opera and others requiring fewer singers can be substituted instead if 'Aida' is too expensive; furthermore it can be performed with fifty choristers rather than a hundred. The issue, then, is whether technical constraints allow for any substitutability. Substitution could take place at two levels - the work itself and the number of performers that are needed to perform it. There is some limited possibility of flexibility in respect of the numbers needed to perform some works; there have been some notable examples of cut-down versions of operas - Peter Brook's production of 'Carmen' had fewer principal singers than usual and no chorus. Nearer home, the smaller opera companies in Britain - Opera 80, Travelling Opera. Pavilion Opera, Opera East, Scottish Opera Go

Round - play reduced versions of operas, saving on singers and musicians... Furthermore, there is a large repertoire of small-scale works to choose from... But substituting different works needs audience approval... However, tastes do change. The swing to historically aware performance... the taste for Early music, and other such changes in taste have resulted in reductions in the number of players needed to perform even standard works... Clearly, technical constraints do exist in music and opera but there is scope, at least in the long run, for changes that save on labour costs by one kind of substitution or another... although there is always the risk of reducing quality (Towse 1993:108-111).

Note Towse is still concerned with productivity improvements in the technology of performance. She does not discuss those that may be applied in the area of establishment and development of production costs (which as we shall demonstrate in chapters 6 and 7, are equally important).

Baumol and Bowen state the assumption clearly:

Performing arts organizations can also reduce the rate of increase in their unit costs by permitting the quality of their product to deteriorate, through fewer rehearsals, the use of less well trained performers, shoddy costumes and scenery... But such a course is never popular with organizations dedicated to quality... (Baumol and Bowen 1966:175).

- *Objection 3* : The assumption that organizations in the live performing arts are active cost minimizers is not necessarily applicable. A new significant factor in the environment is the trend known as deindustrialisation (for discussion see Rowthorn and Ramaswamy 1997). Deindustrialisation is characterised by the relative decline of manufacturing's share of total employment and total GDP and is a feature of the advanced economies such as USA, Japan, Europe and more recently, South East Asia (notably Hong Kong, Singapore, South Korea and Taiwan). The trend is an outcome of the very productivity differential (that between manufacturing and various service sectors) that Baumol and Bowen describe in their 1966 study. One potential outcome of deindustrialisation is that as manufacturing continues to become proportionately less significant in an economy, overall growth will become dependent on the creation of productivity improvements in services. Arguably, the assumption that organizations in the live performing arts actively pursue productivity improvements and efficiency measures may only now, in the light of deindustrialisation, be valid.

Indeed many of the productivity improvements which Baumol and Bowen, and Heilbrun and Gray, dismiss as unachievable in the live performing arts may be realisable with the onset of such predicted productivity pressure in the services sector. Indeed, the drive towards accountability (as outlined in section 1.2) brings with it pressures and responses which by default tend to result in improvements in productivity (viz. efficiency measures, of which productivity is a category). A recent report on the financial affairs of the Royal Opera House, Covent Garden, underlines this very point. In the report summary which refers to the need for more accountability (an irony not lost on this researcher since the full version of the report has not been made available to the general public) mention is made of unnecessary duplication of effort and for the need for closer ties between repertoire planning and (resource) budgeting:

> *...the ROH's* [Royal Opera House] *budgeting should not divorce repertoire programming from resources, as has been the case in the past... the new regime is committed to altering both procedures and culture in this respect. Managers of the artistic activities will be required to take responsibility and* [be] *held accountable. In the light of his conversations with them, Mr Walker-Arnott believes that the new regime at the ROH:*
>
> > *- recognises that the financial management and systems of the ROH need to be improved*
> >
> > *- is genuinely committed to reforming the ROH's culture, procedures and systems; and*
> >
> > *- has the knowledge and experience to do so* (ACE/ROH 1997a:3).

Had this report, not been commissioned, the potential for these measures (which imply immediate efficiency improvements) might have gone unrecognized i.e. in the absence of accountability there would be no apparent motivation to pursue them. That such basic house-keeping (i.e. ensuring proper budgeting control of individual productions) has been shown to be inadequate at the Royal Opera House is disturbing and merely underlines our point that opera companies in the subsidized sector cannot be assumed to be active cost minimizers. This leaves us with a question as to the applicability of the *productivity lag* model in the context of the UK subsidized opera sector.

The model assumes that management in the live performing arts actively seeks to reduce unit costs, but without the forces of competition ***within*** the subsidized sector this assumption is questionable. Indeed were subsidized arts organizations to succeed in controlling costs and thus reducing deficits, it is entirely possible that they might effectively be penalized for successfully squeezing the income gap. Since the award of subsidy is predicated on past, current and future need, this is entirely plausible. Indeed, we might argue that in the subsidized opera sector it pays to maintain rather than to eliminate deficits (this is demonstrated in chapters 6 and 7).

- *Objection 4* : Productivity comparisons imply standardized units of output (such as printed circuit boards, compact discs, and cars, for instance). However, no two opera performances are the same (see chapter 2). In fact, it is difficult to define the output of services (including the live performing arts).

There are two issues: a) the confusion of standard with non-standard units of output; and b) the confusion of productive capacity with production output.

Indeed, Heilbrun and Gray offer us a confused picture of precisely what they take the output of a live performing arts organization to be i.e. of what it is relevant to measure. In one example (1993:130) they take number of admissions per hour as the output of a symphony orchestra, and in another, they take the actual performance of a Beethoven quartet: *...there is really no way to increase output per hour. It takes four musicians as much playing time to perform a Beethoven string quartet today as it did when it was first published in 1800* (1993:127).

Not only is this example simplistic, but any musicologist will demonstrate that because of debate about Beethoven's metronome markings and tempi indications, changes in interpretative canons, changes in the techniques and aesthetics of string playing, that we never have and never will have a standard duration for a given string quartet. So the very idea that a single performance represents a substitutable unit of output is completely inappropriate in the context of the live performing arts.

Moreover, the idea that output can be measured in terms of admissions per work hour (e.g. Heilbrun and Gray 1993:130) is no stronger. The number of admissions per hour for any live performance held indoors, is a measure not of productivity, but of capacity. In any concert hall or opera house, there is a physical constraint on the size of audience which can, under proper Health and Safety regulations, be seated. In a factory producing printed circuit boards, the square footage or number of lines which can be devoted to production places like limit on the capacity of that plant. Note capacity is defined as the maximum available amount of the transformation process over some specified duration (Meredith 1987:120). An increase in capacity utilisation is *not* the same as an increase in productivity, albeit both are measures of efficiency. Indeed, it is quite possible to have one without the other, or for an indirect relationship to pertain between the two e.g. working above normal capacity might increase capacity utilisation but reduce productivity if proportionately more extra staff were required.

- *Objection 5* : In general, comparisons of productivity cannot be made over the long-run because product forms and service forms change. Note, long-run comparisons of productivity were a key element in the methodology adopted by Baumol and Bowen. But long-run comparisons of productivity in the arts require that *artistic value* be treated as a constant; it requires that we ignore the possibility that the service form may have changed over time (an objection which is consistent with objection 1 above i.e. changes in opera company cost components represent changes in input and therefore changes in the way in which *value* is *added*; see also chapters 6 and 7).

Economists also encounter the same type of comparability problem in trying to determine long-run comparisons of consumers' wellbeing via consumer price indices. Traditionally, consumer price indices are formed by comparing the cost of a *basket* of consumer purchases today with the cost (at normalised prices) of the same basket yesterday. The problem lies with the content of the *basket*: yesterday's *basket* cannot reflect today's innovations. For instance, a telephone today is not the same as a telephone twenty years ago. Indeed, the very concept of the telephone has changed: today it can be mobile, can take messages, may be used as a fax, comes with add-on digital services and, with the use of a modem, can be incorporated into a complete home or office telecommunications system involving the ability to send email and search the Internet. In other words, the product form of the telephone has changed through innovation (here technological). This innovation, in turn, has changed the way in which users relate to the telephone and thus perceive its value. The intangible benefits associated with the telephone have grown, such that now we buy a service with the option of multiple telephone points and multiple numbers per line instead of renting a single physical line (intangibility is discussed in chapter 4). Moreover, we have choice: telecommunications was long regarded as a natural monopoly, but with deregulation, many providers now compete on price and value, providing an ever increasing range of additional services and benefits (such as itemised billing, frequent number discounts, handsets with special features, handsets for those with impaired hearing etc.).

Thus economists recognise that it is very difficult to make meaningful long-run comparisons involving cost-benefit relations (such as Baumol and Bowen undertake in their study of ticket prices in the live performing arts), precisely because: a) product forms and service forms contained within the *basket* may change radically (changing perceived use-value(s) over time); and because b) such innovation may alter the relative position of items in the basket vis a vis other products and services e.g. the item may move into new markets where new or different substitutes will be encountered.

In the case of opera (which we explicitly define as a service in chapter 4), many *innovations* have occurred: front of house facilities have been extensively developed to include bars, information points, telephone enquiry and booking services, and corporate hospitality suites; within the auditorium, surtitles have been introduced and lighting design as an artistic element has developed in importance and sophistication with the advent of computerisation. Such innovation inevitably means that audiences have changed also e.g. the choice to see an opera with or without surtitles or to see it in translation produces new types of audience groupings. Even in terms of individual works themselves, the same applies: the audience for a Handel opera today does not necessarily follow the logic of ornamentation in the *da capo* aria form with the same ease and expectations as an audience in eighteenth century London.

Specifically, productivity improvement (increasing the volume of output per hour) is not the only appropriate response to a rise in unit labour costs (the *productivity lag* or *cost disease* problem); it is also appropriate to change the *value* of the output (specifically, to *add* value, and thus to alter the price; see Ohmae

1983). It is because the *productivity lag* model fails to accommodate this second option in a satisfactory way that it betrays a major weakness. Let us be clear, in order to keep apace with rising unit labour costs, a manufacturing company or an opera company, for instance, must:

a) Increase the *volume* of output per work hour (productivity increase); or

b) Change the *value* of the output by adding value and thus increasing price; this will involve not only a change in the product or service form, but is likely to have an impact on volume of output also. In generalized terms, and in the context of consumer markets, adding value and lowering volume constitutes a move upmarket, whilst lowering price (but not necessarily changing value) and increasing volume constitutes a move downmarket.

In the context of our study, the *productivity lag* model presents opera as a kind of hapless victim of wider economic forces i.e. as a victim which deserves the unquestioning support of taxpayers. But the arguments behind the *productivity lag* or *cost disease* model, as we have demonstrated, do not bear close scrutiny and, arguably, divert attention away from the real issues (i.e. of value and the relationship between inputs and outputs). Arguably, this cuts opera off from the vital driving forces of market demand and changing tastes, so that innovation and market development are severely hampered.

The main problem underlying economic models such as that developed by Baumol and Bowen is summarized in the following extract which is taken from a standard text of the Chartered Institute of Marketing:

> *Economic theory has little to say about product policy because the theory of consumer behaviour treats the products themselves rather than the benefits or characteristics they possess as the direct objects of utility. Under such an assumption little can be said about the key questions of how one product competes with another or how one can develop a superior product. Recently economists have tried to fill this gap by developing a new theory of consumer behaviour*

which defines a product as a bundle of characteristics which are the ultimate goal of the buyer... this opens the possibility of a much more fruitful set of insights into consumer behaviour (Doyle 1991:278).

3.4 The merit good model

It is thought that *merit good considerations have probably been the most significant single explanation of government involvement in the arts* (Throsby and Withers 1979:192).

In the *merit goods* scheme of things it is held that certain activities, such as the arts, are intrinsically valuable and meritorious, and that to support them is in the public interest (Mulcahy and Swaim 1982:60). Education and healthcare are classic examples of such *merit goods*.

Now whilst this is a useful starting point, it is also an oversimplification. In traditional economics, the *merit good* theory provides an argument for government intervention or support where it is thought that the market for that good will otherwise fail (Bailey 1995:28). Government intervention is only justified by *market failure* i.e. where the market produces a non-optimal outcome in terms of distribution of that good. *Market failure* can be understood to occur, in the *merit goods* case, either as the result of inefficiency (a non-normative argument), or as the result of inequity or social injustice (a normative argument). That is, the merit value of the *merit good* is predicated both on issues of what is fair or right in principle (what should be supplied and demanded), and on straightforward optimality arguments (how supply and demand should be managed to optimize distribution). This mix of normative and non-normative criteria concerning the economic welfare of producers and consumers is a source of ambiguity and confusion (particularly with public good theory and the concept of externalities). Quite what is meant by *market failure* in the *merit good* theory as it applies to the arts is, as we shall see, a major question.

Thus, *merit goods* can be defined as *goods which it is beneficial that all partake adequately in, but which individuals are likely, left to themselves, to underuse* (Walsh 1995:10).

More strictly, the term *merit good* was first introduced by Musgrave (Musgrave 1959) to describe any goods which government has decided it would be desirable to provide, at zero or subsidized price, in some quantity greater than consumers would wish or be able to buy at market prices. Note, government's decision to supply the arts on a *merit goods* basis involves the imposition of taste and preference: government must decide what it is in the public interest to supply. A subsidy is introduced to increase the quantity of the good which it has been decided should be supplied (e.g. live performances of opera). *Merit good* arguments therefore form the basis of the *public service provision* model.

There is a strong circularity here: government has no objective basis upon which to decide what should be supplied as a *merit good* (i.e. what kind of art, or what range of artforms). Because it assumes *market failure*, it cannot take signals from the market about consumer tastes and preferences in the arts - it has assumed that these signals (e.g. existing purchasing patterns of consumers) are misleading and not truly representative. More strictly, it makes the assumption either that some aspect of supply is missing, or that consumers simply do not know what is best for them (i.e. do not behave rationally and buy the kind of art which is *best* for their welfare). This is heavily paternalistic.

Whilst on the face of it, the *merit good* theory appears to provide a moral justification for government intervention, it is not straightforwardly consequentialist. Simply because a good is recognised as possessing some social value (a moral property) does not mean that the good as possessor of that moral property should automatically be promoted. In moral theory, the consequentialist view says that if something possesses a certain moral property (value or goodness) it ought to be promoted and it is right to do so. This, however, is not a sufficient explanation of how the *merit good* theory operates. Strictly, the arts as a type of generic *merit good* are funded, not because it is morally right to do so, but because it is thought that if left to its own, the market for the arts will not operate in an efficient way i.e. that inefficiency leads to inequity. This is a subtle but interesting point.

Now, this situation of allocative inefficiency or *market failure* typically occurs, in the *merit good* case, because:

- *1) Individuals may undervalue the good*: Individuals may undervalue the personal benefits derived from consumption of a good i.e. they attribute insufficient merit to the good (Bailey 1995:28). This may occur because individuals lack sufficient information to enable effective consumer choice, because of consumer irrationality, or because consumer sovereignty is not attainable (in cases where consumers do not wish to make decisions) (Walsh 1995:10).

  Applied to opera, this means that individuals may be thought to undervalue the personal benefits of attending live performances of opera because: they lack information or knowledge about opera; their behaviour or attitude towards opera appears to vary unpredictably (i.e. by not always supporting opera and therefore apparently not always maximizing their own welfare); or because they can evoke little response from producers about the type of opera they would most like to see (low involvement in or influence on the transformation process).

- *2) Individuals may disregard the wider social benefits (externalities) of the good*: Individuals will tend to disregard the wider social benefits (positive externalities) of the good since it is assumed they will aim to maximize their own personal welfare (Bailey 1995:34). That is, *market failure* will occur where the social valuation (the costs and benefits to society) of the good is not included in the private cost functions of producers and consumers (Bailey 1995:40).

  Applied to opera this means that individuals may fail to support their local opera company, and so fail to support a young composer, for instance, whose work might benefit national prestige. This may occur because the individual fails to perceive or consider any connection between the externality (the benefit to national prestige) and his own personal welfare (i.e. it will not figure in the transaction or trade of values he makes with the opera company when buying a ticket, if indeed, he buys a ticket).

- *3) Individuals may lack access or opportunity to consume the good* : The private sector may restrict access to, or participation in, the good (Walsh 1995:10). This is really a variation of the second type of *market failure* above. In short, it reflects the problem that producers may face in pricing the good i.e. they cannot include the social costs and benefits (which may be external to the market) in their own cost functions. An insurance company offering private health insurance cannot reflect the benefits of health insurance to society as a whole in its individual market. Consumers may therefore face a disincentive to buy because producer prices are perceived as high relative to the perceived personal benefits of consumption of the good.

  Applied to opera this means that individuals may, for instance, fail to support their local opera company because the ticket price seems too high relative to the perceived personal benefits of attending a live performance of opera by the company.

In short, *market failure*, in the *merit goods* case, occurs where individuals can be said not to be the best judges of their own welfare (Bailey 1995:28) or the best judges of their own welfare *and* the public interest (Walsh 1995:10). It is a strongly paternalistic argument.

Whilst the *market failure* argument makes sense in the case of essential services such as education and healthcare it does not, however, easily apply to the arts. It can be expected that an adequately educated, adequately healthy workforce will make a better contribution to a nation's Gross Domestic Product (one measure of economic welfare) than will an inadequately educated, inadequately healthy workforce. But is there an adequate level of access to or participation in the arts; one at which a net contribution to Gross Domestic Product can be observed? Conversely, could it be demonstrated that an inadequate level of participation in the arts leads to a deleterious effect on Gross Domestic Product? Strictly, do the arts have a demonstrable social value in the same way as other, classic *merit goods*? That is to say, the merit of the arts as *merit goods* must be measurable by *financial value*, not by *artistic value*. So the normative basis of the *merit good* theory, as it applies to the arts, does not appear to be fully worked out.

Note, the arts are often treated as *public goods* i.e. goods which exhibit non-excludability in consumption. As long as the arts are treated in a generic sense, this argument can pass without obvious difficulty (examples cited usually include architectural heritage, or visual arts in public galleries). But, in the context of the performing arts, this is simply not sufficient. Consumption of a live performance of opera does exhibit excludability; there is an obvious capacity limit in opera. When one individual buys a ticket to the opera, he excludes the possibility of any other individual sitting in that seat for the same performance. This is classic excludability and changes the whole basis of any argument concerning externalities in the arts. It is a profoundly important point. If we are to entertain the possibility of positive externalities in the arts, then we need address the issue with considerably more intellectual honesty.

As a justification for the public subsidization of the arts, then, the *merit good* theory is not without its problems. One of the main arguments against the *merit goods* view is the potential misuse of the theory of *market failure*. In the context of the arts, it has been argued that government can use the *market failure* concept *as scientific pretence to impose its own preferences on individuals and communities* (Bailey 1995:39). This is brought about because the difficulties of quantifying and valuing *merit good* and social value characteristics may facilitate political manipulation of a nation's electorate. Bailey argues that government may, if it wishes, *exaggerate the personal and social benefits derived from the arts... in order to justify levels of service greater than would be provided by private markets without financial assistance from the government* (Bailey 1995:40). This creates the possibility that taxpayers are required to pay for services they may not wish to use, and leads us back to the idea that artforms, such as opera, may be élitist (see again *public service provision* model):

> *If low-income groups are paying taxes in support of services used by higher income groups, then the outcome may be deemed inequitable. Inequity may be compounded if those higher-income groups possess more political power than do low-income groups* (Bailey 1995:40).

In terms of value, then, the idea of the *merit good* requires us to accept that artforms such as opera, and therefore whole cultural sectors, have some kind of intrinsic or *absolute value*, that they are good-in-themselves, and also that they posses some *moral value* (*merit*) to society. In other words, that we are to treat artworks as intrinsically beneficial in the same way as *merit goods* such as private personal pensions and private health insurances i.e. that there are positive externalities to the subsidization of opera.

Interestingly, David Hume's essay *Of the delicacy of taste and passion* (Hume 1777a) amounts to an argument about the positive externalities of artistic activity within society. He claims, for instance, that *a cultivated taste for the polite arts* promotes *love and friendship* Hume 1777a:12) i.e. that it promotes the common good via better relations between men. Hume also claims in another essay (*Of refinements in the arts,* Hume 1777c) that artistic activity within a society aids the common good because: a) it promotes *action and pleasure* (ibid. Hume 1777c:168); b) it promotes *rationality* and greater *humanity* (ibid. Hume 1777c:169); and c) it benefits good government by stimulating an *increase in consumption of commodities* (ibid. Hume 1777c:170). These are, in effect, arguments about the social value, the positive externalities of art. As benefits, they are, however, intangible and largely untestable, except perhaps for the last e.g. spin-off benefits to local restaurants near the opera house.

As we saw above, according to economic theory, where it is thought that individuals undervalue the personal benefits derived from consumption of *merit goods*, *allocative inefficiency* may occur (Bailey 1995:28). That is, the intrinsic benefits which the *merit goods* are attributed as possessing are not efficiently allocated across the population of potential consumers. One of the mechanisms by which such inefficiency may be removed is by means of public subsidy. Specifically, the idea of subsidy in this context is to *encourage optimal personal levels of consumption* of the *merit good* in question, *by using subsidy to reduce the price paid by consumers* (Bailey 1995:28). In short, stimulating consumption by reduction of price to the consumer. This brings a curious twist in the case of the artwork as *merit good* since it suggests that artworks as *merit goods* are intrinsically and equally beneficial to *all* individuals (again an assumption of universal demand). Not only is this paternalistic, but it assumes that reductions in ticket prices necessarily increase the consumption of live opera. But this is to confuse access with increased utility (perceived value), and there is a profound difference.

Moreover, the *merit good* theory does not accommodate the problem of propagandistic art. *Artistic value* judgements do not conform to the *merit good* theory under autocratic political regimes, for instance. The whole concept of Nazi art demonstrates this problem: artworks, unlike healthcare services, are not meritorious to all of the people all of the time. Moreover, the *merit good* theory does not accommodate differences between individuals in terms of tastes and preferences. Only by considering the arts as a generic service can this be overcome. Government cannot respond to tastes and preferences because these can only be expressed through the market mechanism i.e. ticket purchase. This requires that government make an assumption about the value of the good (the arts, generically, or opera, specifically) to its citizens. This is not equivalent to the idea of an *artistic value* franchise where franchisees have a right to set and change the *artistic value* agenda, because here, it is government which sets the agenda. It also encourages treatment of *artistic value* as an exogenous given, and this introduces an unhelpful recursivity in the practical application of the theory.

The *merit good* theory then, is heavily paternalistic in its assumptions and does not provide us with value criteria which relate to the perception of value by real individuals and groups within the environment. It does not sit easily with the idea of art and culture as the expression of creative individuals, as a thing which owes its genesis to individual creative effort. Rather, it imposes art as a collective ideal. Inevitably, it politicizes art.

3.5 The socio-economic contribution model

The idea that public subsidization of the arts can be justified on the basis of the potential, measurable contribution of the arts to the socio-economic environment has gained considerable ground in the UK in recent years. Its genesis can be traced to arts advocacy and economic impact studies in the US in the 1970s (for background see Heilbrun and Gray 1993).

In the UK, there is evidence of an increasing emphasis on the idea of what we may term, the *socio-economic contribution* of art. Under the previous Conservative administration, during the Major years (see chapter 5), there were two main ways in which this contribution was sought: first, the contribution to *cultural tourism* and *economic development* (DNH 309/1996, DNH 373/1996); and second, the contribution to *social regeneration* (DNH 357/1996, DNH 363/1996).

Interestingly, the Labour Government under Prime Minister Blair has picked up on the general theme of *socio-economic contribution* and private sector initiative with the setting up (in 1997) of the Inter-Departmental Creative Industries Task Force. This Task Force comprises industry leaders who have themselves a track record of financial success (and therefore *socio-economic contribution*) in the arts[5] (DCMS 178/1997).

The nature of the *socio-economic contribution* the UK Labour Government expects the arts to make were outlined by Chris Smith immediately following his appointment as National Heritage Secretary (now the Secretary of State for Culture, Media and Sport):

> *The arts and cultural industries alone turnover more than £12 billion a year, and return a substantial positive balance on our trading account. Cultural activity, therefore, has an important rôle to play in working towards our goal of high and sustainable levels of employment. This is why I am particularly anxious for the cultural sector to play a full part in our proposed welfare to work programme, helping young people particularly to come off benefit and into work or high quality training. The creative industries have a key rôle to play as part of that endeavour* (DNH 126/1997).

This has since been developed to include the concepts of *neighbourhood renewal* and the *new deal for communities* (see section 1.2).

Whilst the *merit good* theory (discussed earlier) does not attempt to explain the externalities associated with art and cultural activities (indeed, it assumes that art and culture is an externality or wider social benefit in itself), in the *socio-economic contribution* model, the idea that art and culture has some intrinsic value is laid aside.

Under the *socio-economic contribution* model, then, the arts are certainly not regarded as an end in themselves. The emphasis is on instrumental value. Specifically, on the net contribution which arts organizations such as opera companies, can be seen to make to either the local or national economy.

Whilst economists may argue that the model we identify here, because of its emphasis on positive externalities (wider social benefits), is merely a sub-set of the *merit good* model, there is a philosophical distinction between the two. From the point of view of the opera community, and indeed the arts community as a whole, the difference carries major implications. Whereas the *merit good* theory, as we saw, includes a normative case for the subsidisation of art (i.e. art is intrinsically worthwhile), the *socio-economic contribution* model presents an entirely non-normative case. It makes no judgement as to the value of art itself, but considers it worthwhile only insofar as it pays its way in socio-economic terms. Indeed, the model invites us to regard opera, and the arts in general, as substitutable goods i.e. substitutable by other sectors or *industries* (viz Creative Industries Task Force) which may be able to provide greater social *and* economic contribution to the environment (note the interesting, implied stress on the inseparability of *artistic value* and *financial value* here).

Whilst the model has the virtue of linking the arts to their environment, it also invites quantification of the contribution (i.e. estimation of the *financial value* the arts create in the economy, either directly or through spin-off activities). Once the value of the arts or a specific arts organisation is quantified (i.e. measured by proxy) it is easily judged in comparison with quite different types of service or economic activity. The opportunity cost of funding the arts or an arts organisation (i.e. the cost of not putting that funding to the best possible alternative use) becomes at once more apparent because value has been given commensurability (units of *financial value*, money).

Now, whilst quantification of value is no bad thing in itself (we have already shown the inseparability of *artistic value* and *financial value*, for instance), it has to be done well to be meaningful. Indeed, there is danger here for both government and opera community either through undervaluing opera by virtue of poor methodology, or poor interpretation of results (for discussion see Heilbrun and Gray 1993).

Arguably, the *merit good* model and the *socio-economic contribution* model both encourage debate about the externalities of opera to be conducted in terms of *total utility*. Now in utility theory, the satisfaction a consumer receives from consuming commodities is called *utility* (Lipsey 1983:164). We have already introduced the concept of utility in our discussion of *use value* in chapter 2. However, in utility theory there is an important distinction. Whereas total utility refers to the total satisfaction gained from consuming a commodity, marginal utility refers to the change in satisfaction resulting from consuming some small increment more or less of a given commodity (ibid. Lipsey 1983:164).

Now, it is tempting, when discussing substitutes for opera (i.e. products or services which compete in some way with opera, or as here, offer as many social benefits or externalities as opera) to present potential substitution in terms of *total utility*. For instance, Baumol and Bowen (1966) (see *productivity lag* model) introduce the idea that opera on television forms a close substitute for live performance; that the consumer will be little motivated to attend an evening at the opera (given the associated costs of the ticket and travel etc.) when the opera can be seen without cost in the informality of the home. This is an implicit comparison of total utility: the idea of either all A or all B.

Translated into a wider context, this means that the *merit good* model and the *socio-economic contribution* model, because of their respective focus on the potential positive externalities of opera, tend to encourage the opera community to argue from an overall moral standpoint. That is, it is easier to argue that subsidisation of opera is a good thing; that when asked, people will support the idea of subsidisation *in principle*. These are arguments about *total utility*. The argument that the Royal Opera House, Covent Garden should receive emergency funds in addition to its annual subsidy and National Lottery award is an argument about *marginal utility* (i.e. how much more is the taxpayer willing to subsidize opera before the increment of value (possible perceived externalities) begins to diminish in his mind. The two arguments are fundamentally different. The first is easily employed as a kind of arts advocacy argument, as evidence of public support for opera; but the answer is predictable, usually favourable, and carries little information (in general, people like to see themselves as tolerant and culturally enlightened). The second argument when put to the test, however, may yield much less predictable results and whilst less predictable results are more interesting and increase knowledge, it would be unlikely to have advocacy value. This is perhaps a minor, but nonetheless interesting point.

3.6 Other models pertaining to value in opera

The artistic resource-base model

This informal model is based on the idea that we need to maintain an opera sector in the UK if we are to provide suitable professional career opportunities for young, native talent.

Unlike the *socio-economic contribution* model discussed above, the *artistic resource-base* model sets up a framework for the justification of public subsidisation of the arts not on the basis of immediate social and economic benefits (which may be directly measurable), but on the basis of what we may term quasi-moral criteria and long-run social and economic benefits. Briefly, we may characterise the criteria framework as follows:

We should not waste living resources because:

a) to do so is to neglect the potential contribution of a group of individual citizens and is therefore;

b) to deprive such individuals of full and active participation in society which is therefore;

c) to deprive society of the potential social and economic benefits (e.g. to national prestige or to invisible earnings) that such individuals may be able to make in the long-run.

The implication here is that we have a moral duty to foster the talent of citizens for the good of the UK as a whole, and that if we are lucky enough to possess indigenous talent (an *artistic resource-base*), we should exploit it and not leave it open to other countries to benefit from it (e.g. via careers pursued abroad).

In sum, this means that the existence of artistic talent (i.e. singers, conductors, composers, designers, producers and so forth) within the UK represents a resource which morally and economically we ought to value and utilise i.e. their very existence constitutes a sufficient criterion of their funding. Such an argument is applicable in the context of any politically or culturally bounded area or region. With the current shift towards greater decentralization of government in the UK, for instance, the *artistic resource-base* model may well come to the fore in the argument for continued subsidisation of Scottish Opera (i.e. as a more explicit means for promoting Scottish talent).

The implication of the *artistic resource-base* model is that the existence, continued maintenance and development of a sound opera infrastructure can be argued on instrumental grounds. That is, that a sound opera infrastructure exhibits an instrumental value insofar as it facilitates the utilization of living *artistic resources* (composers, conductors etc.) which in turn, yields *future* moral, social and economic benefits.

The above arguments, as we have stressed, are of an implicit and informal nature. Nevertheless, taken together, they all resolve into what we have termed a *resource-base* approach to public subsidy justification in the context of the arts. Now whilst there is no formal exposition of such a model in the arts, recent developments in the emerging field of ecological economics provide us with a suitable analogy for further characterization of this model and its implications for *artistic value* and *financial value* in opera. We would do well therefore to examine current thinking in ecological economics precisely because it represents a field in which a *resource-base* approach to value has been more thoroughly and critically developed.

In a key paper in which the term ecological economics is defined, Dasgupta (Dasgupta 1996) argues that the *environmental resource-base* should be regarded as a form of capital stock (comprising animal, bird, and fish populations, water, soil, forest cover, atmosphere and so forth). Dasgupta argues that treatment of this natural capital base as a *free good* is bad economics because nowhere does the *environmental resource-base* exist in unlimited supply.

Now, by analogy, the same could be said of the *artistic resources* required in the production of opera: that talented singers, conductors, directors and so forth do not exist in unlimited supply. Indeed, in economic terms, we could regard such artistic living labour as a form of renewable but nevertheless depletable stock. We expect a certain number of British singers to graduate from music conservatories each year; reducing study and professional debut opportunities reduces this stock of young professional talent.

Arguably, there is even an element of non-renewability contained within this stock: the transfer of skills from one generation of artists to another exhibits perishability. As an example, the loss of one *bel canto* expert to a conservatory overseas can mean the disruption of a long line of oral and aural tradition. Equally, any discontinuity in the informal apprenticeship approach to the training of young opera coaches can mean the loss of an entire skill set, which may have taken many generations to develop. For example, a senior coach may have worked with a great many experienced singers of a previous generation, picking up technical and interpretational knowledge of particular rôles in the process. Now this professional knowledge is not, and possibly cannot be, written down, so if a young coach does not have the benefit of working under the guidance of a senior coach, but enters the opera company fresh from the conservatory, he or she will have little to offer the young singer who wishes to work on a new rôle. Thus, through a complex of interrelated factors, tradition, experience and technical skills are lost, and the stock of singers capable of tackling specific areas of the opera repertoire (in a traditional and perhaps authentic manner) is diminished and cannot be renewed.

So we have established the basis of our analogy with ecological economics. If then we are to regard artistic living labour and the opera infrastructure which supports it as a form of capital stock i.e. as a *resource-base*, then how are we to provide objective means by which to measure its social and *economic value.*

Dasgupta begins discussion of the problems faced by ecological economics by focussing on the way in which we price and value natural resources. The first problem Dasgupta points to is that we consistently underprice such resources and indeed often place no price on them at all, taking resources such as forest cover simply as givens, and unlikely, because they are not deemed scarce now, to become scarce in the long-run. But Dasgupta goes on to question the wisdom of this underpricing by putting forward the thesis that increases in societal wellbeing (such as measured by per capita Gross National Product (GNP), for instance) might not occur at the expense of the *environmental resource-base* of a given country. Indeed, Dasgupta proposes a new aggregate measure of societal wellbeing that captures not only the current standard of living, but also the effect of changes in the composition of a country's natural capital on her *future* standard of living. This measure Dasgupta calls Net National Product (NNP).

Now, placing the above argument in the context of the arts, it is quite possible for the opera sector, for instance, to argue that current measures of *artistic value* (such as those posed by the *socio-economic contribution* model discussed above) increase at the expense of the *artistic resource-base* e.g. through the loss of talent abroad, or increased entertainment value of popular repertoire at the expense of what may be regarded in some cases as less popular experimental repertoire produced by young British composers. It would seem that the *artistic resource-base* model provides a plausible objective framework for such arguments, particularly so if we develop our analogy with Dasgupta's scheme of resource valuation a little further.

Now Dasgupta reiterates the general observation that prices in a decentralised economic environment often do not reflect social scarcities (*scarcity value*) of goods and services; that a project's private profitability cannot be regarded as an adequate indicator of its *social value.* Translated into an arts context, this also seems to make sense: the profitability of a West End musical, for instance, is not generally taken, by the classical music community at least, as a sign of its *artistic value* (assuming we can equate *artistic value* with social worthiness or value, which is another question). In response to this observation about natural resources, Dasgupta proposes we utilise what are termed accounting prices (which are notional) rather than market prices (which are real) as a criterion of public policy in this respect. In other words, that we try to estimate, quantitatively, but notionally, the scarcity value of natural resources such as irrigation water, timber, fisheries and so forth. Now without going into technicalities about what constitutes scarcity value in each case and in general, let us consider the important refinement which Dasgupta introduces to the argument at this point. It concerns the two ways in which accounting prices may be estimated. We outline these and Dasgupta's argument below:

- 1) Accounting prices can be estimated from market prices (*use value*). This, Dasgupta says, may capture the direct *use value* of a resource (*use value* is discussed in depth in chapter 4) but will fail to capture any additional values which may be embodied in that resource. Dasgupta cites the *intrinsic worth* of living resources as a prime example of such additional value, and *aesthetic value* as another possibility. Dasgupta makes two qualifications here: 1) that intrinsic worth is not quantifiable and therefore can be used only in effect as a measure of last resort. A blue whale, according to Dasgupta, appears to us to have an intrinsic worth as a living thing, but because it is unquantifiable, we can call upon this measure of value only where the threat of extinction is posed; 2) that accounting prices based solely on *use value* (market prices) because they are *biased* estimates may nevertheless provide useful information. Dasgupta here cites a study in which conservation of blue whales was recommended solely on commercial grounds i.e. using *use value* (market price criteria) (see Spence 1974). The fact that we could add intrinsic worth to this analysis merely reinforces the outcome which was in favour of preservation and which was achieved by means of accounting prices based on *use value.* In other words, Dasgupta argues here that *use value*, despite the constraints, provides a useful basis for calculating the value of scarce (environmental) resources.

- 2) Accounting prices can be estimated on the basis of *option value.* Now here Dasgupta defines the *option value* of resources as comprising two properties: a) uncertainty in their future *use values*; and b) irreversibility in their use. Dasgupta cites genetic material in tropical forests as a prime example of a resource which displays both uncertainty and irreversibility. Dasgupta's argument here is that the twin presence of these properties implies that preservation of such stock has an additional value - the value of extending society's set of future options. Moreover, future options, according to Dasgupta, have an additional worth because, over time, more information is expected to be forthcoming about the resource's *use value.* It is this additional worth which is called an *option value.*

- 3) Now, on the basis of these two refinements, Dasgupta argues that the accounting price of a resource is, at the very least, the sum of its *use value* and its *option value* (for further discussion see Arrow and Fischer 1974). In this way, we are less likely to underprice a resource and more likely to construct an index of societal wellbeing which does successfully capture the effect of changes in a country's *environmental resource-base* or natural capital (what has popularly been termed *green* NNP). Translated into the context of the arts this would give us an hypothetical *artistic* Net National Product (*artistic* NNP) as an index of what we might term societal-artistic wellbeing.

Now this index would share the same property as that of *green* NNP, namely: small policy changes (including small investment projects) that improve the index are at once those that increase social wellbeing (for discussion of this property see Dasgupta and Heal 1979). In this way we could envisage the production of national accounts which include the *artistic resource-base* as an integral element.

Attractive though this would be, it nevertheless leaves us with a number of major problems. Firstly, we would have to define what constitutes the entire artistic capital base of the UK. We would need to do this if we were to measure any potential erosion or depreciation of that capital with any success. Immediately this begs the question, what constitutes an *artistic resource*? Whilst we can recognise environmental resources with ease, definition of *artistic resources* would in many cases involve considerable debate. Towse (1993), for instance, encountered difficulties in establishing an estimate of the total population of professional singers in the UK, as many were found to work on a semi-professional basis and could not easily be identified.

The idea of an artistic NNP based on accounting prices of *artistic resources* also leaves unaddressed the problem of what Dasgupta terms *additional* values such as *intrinsic worth* and *aesthetic value*. Since neither of these is quantifiable, we could only use them, in effect, as values of last resort i.e. we could not incorporate them into our artistic NNP which is quantitatively derived.

So it seems we come full circle: we might argue in favour of subsidising a particular set of opera companies on the grounds that not to do so would be to allow our artistic capital to depreciate in value, but we would still be left with the question of what precisely (and legitimately, perhaps) constitutes that *artistic resource-base* or capital at any one time.

At a political level it also poses a danger. By focussing on the value of a country's or a specific region's *artistic resource-base*, there is every likelihood that attention will be overly focussed on the ethnic origins of living artistic labour. There is every danger that an *artistic resource-base* once measured and established, could become a form of political capital in itself. Interestingly, this fails to break down our analogy with ecological economics, for, as Dasgupta points out, that which constitutes an environmental benefit for one country may constitute an environmental cost for another. Moreover, there are certain resources which cannot be owned locally but represent a kind of global *common good* (such as the atmosphere). The same may be said of artistic traditions; indeed, could we differentiate between those *artistic resources* which belong properly to a specific nation, and those which are held in common by all Europeans or Americans and so forth?

There is, however, one virtue in the *artistic resource-base* model. It is that which provides the implicit starting point of Dasgupta's paper; it is that which Marx understood explicitly, and it is that which any professional marketer will understand intuitively, namely: that price does not equate to value. This we will discuss in some detail in chapter 4.

The information good model

The theory of the artwork as *information good* treats the artwork as an idea, as a message or set of messages, transmitted to and received by the public. The means of such message transmission, according to the theory, can be material, such as a stone sculpture, or immaterial, such as a live symphony concert (e.g. Brosio 1994).

The virtue of this theory is an ontological one: it recognises the live performance of opera as an immaterial good, providing in other words, a recognition of its intangibility (an issue we discuss in depth in chapter 4).

It is also based on the idea that transactions made, in our case, between opera producers and consumers (i.e. the opera company and parties in the environment) do not occur in conditions of perfect knowledge, and do not occur without cost in themselves; that there exist *information asymmetries* between producers and consumers.

A specific instance of the *information good* idea can be found in the economic theory developed by Mossetto (1993). Here, Mossetto takes a Kantian approach to the question of *artistic value*: it is the basis upon which Mossetto builds the idea of art markets as involving typical *information asymmetries*. Thus, *following Kant... the aesthetic assumption can also be considered as a specific feature of the information process* (ibid. Mossetto 1993:75). This is the assumption that *utility*, although it can be added to *beauty* can never participate to constitute it (ibid. Mossetto 1993:74). By this Mossetto means that: *only when the beautiful and functional beauty (utility) coincide - that is in the case theorized by Hume and others of the identification of the useful with the good and the beautiful - can this increase of information be appreciated by the market* (ibid. Mossetto 1993:75).

According to Mossetto, then, where *creativity* (production) and *interpretation* (consumption) fail to coincide, that is, *the two main aesthetic processes* [which] *must both be examined as information processes or as part of them... the market fails to evaluate the aesthetic experience correctly either on the demand or on the supply side*, thus resulting in *information asymmetries* (ibid. Mossetto 1993:72-5). Specifically such *information asymmetries* can lead to *an increase in information on reality either for the artist of for the interpreter (asymmetrically) or for both of them* (ibid. Mossetto 1993:75). Thus:

> *...the asymmetry in the agent's quality, and specifically the consumer's lack of 'interpretation' in the presence of producer's aesthetic 'creativity', is a basic reason for subsidizing art...* (Mossetto 1993:78).

Mossetto's analysis of the role of the *culture industry* has an interesting outcome from the point of view of our political economy of opera. Whereas, Adorno (as we shall see in chapter 4) considers himself an independent observer of the *culture industry*, one who is able to offer a critique of its aims and activities, Mossetto's theory, in effect, treats Adorno as internal to the industry, and his aesthetic theory an integral part of its information *certification* process. As an academic and music theorist, Adorno equates to a *certifier* in Mossetto's analysis (ibid Mossetto 1993:153-64):

> *Culture has effectively been a monopoly from the most ancient times. Egyptian priests, medieval monastic orders, Renaissance arts and crafts guilds, modern and contemporary professorial associations, and in many countries Universities, act as monopolists.* (Mossetto

1993:153).

Mossetto goes on to define cultural supply in the following terms: *a good can be defined as 'cultural' if its 'quality' is certified by cultural institutions, either because it was produced by them or because it has been ascribed by them to 'culture' after having been produced.... two other attributes qualify cultural supply: self-certification and a priori untestability* (Mossetto 1993:154). All this has important consequences according to Mossetto:

> *Information asymmetry is stressed as a consequence of all this. Consumer information on quality is specifically penalized. Consumers have to resort to culture in search of information [on] quality. They need someone to trust in, to certify a priori the quality of the good they consume. Culture is a 'service industry' or a 'broker' between consumers and the truth with reference to quality. Consumers are ready to pay for this 'service' with in-kind or monetary transfers (in ancient times offers to the Temple, contemporary grants, and donation to cultural institutions)* (Mossetto 1993:154).

Mossetto's analysis, however, implies a one-way information flow from producer (creator) to consumer (audience). In the context of the live performing arts, where there is direct feedback between performers (producers) and audiences (consumers), this leaves the role of audiences as influencers of creativity (artistic production) entirely unexplained. Mossetto's analysis reminds us of Collingwood's complaint about gramophone music: that it leaves performers and audience out of touch, reducing the function of the audience from that of *collaboration* to *overhearing* (Collingwood 1938).

There is then, a fundamental difficulty with Mossetto's idea of *information asymmetry* in the market for the arts. Either Mossetto wants us to understand: a) that there is indeed a *correct evaluation of aesthetic experience*, or *artistic value*, and therefore, that *information asymmetry* is the result of a failure of perception (a failure of *good taste* on the part of consumers); or b) that consumers are free to perceive *artistic value* in whatever way they so choose, but that it is the *culture industry*, from its monopoly position regarding the *certification* of value, which is able to declare consumers as *informed* or *uninformed* i.e. that it is the culture industry which deliberately and artificially cultivates *information asymmetry*.

If (a) is true, then Mossetto's analysis is idealistic and fails to account for the critical rôle of feedback in the realisation of value (see chapter 2). This means that Mossetto, like Adorno, places boundary conditions on the perception of value (see chapter 4) so that, in the context of our political economy of opera, consumers are denied full and free participation in what we have termed the *artistic value* franchise. That is to say, opera must be subsidized because consumers do not properly understand or appreciate it (i.e. undervalue it).

If, however, Mossetto's analysis is not to be read as an apologetic for the *culture industry*, if (b) is true, then Mossetto's analysis fails to account for the possibility that consumers may perceive *artistic value* in ways which producers themselves have not discovered, but would value (see, for example, interview with Thomas Adès[6] in E 06-99:128). In which case, we cannot be dealing with misinterpretation (failure of perception) but with some kind of information surplus, a rather odd and unworkable idea which returns us to the dangerous territory that music must *mean* something in some traditional, measurable sense (see e.g. Monelle 1979).

The added-creative-value good model

A more market orientated theory of the value of artworks is that of the artwork as *added-creative-value good* (Owen 1986). In the theory upon which this model is based, it is held that *artistic value* is not different in concept from other forms of social worth; that, in the context of market society, *artistic value* is not, in effect, a special case. Thus, in the *added-creative-value good* model, a collection of art in a museum, for instance, can be viewed as analogous to an ordinary consumer good: a consumer good being the product of the *values added* by several companies in the process of its manufacturing and distribution.

An artwork, such as an opera, then, according to this theory would be seen as the product of the *added-creative-value* of several artists or individuals working within an opera company.

The limitation of this theory, as developed by Owen, is that it relies upon *innovation* as the unit of value. This is a self-referential concept, presupposing that an artwork has value because it is new, original, breaks or develops artistic conventions in some way. Though this approach has the virtue of objectivity (since it is in theory, empirically possible to measure degree of innovation) from an intuitive point of view, it measures an arbitrary variable. We do not value artworks solely because of their real or perceived *innovativeness*. The originality (i.e. innovativeness) of an opera production may contribute to our perception of value, but only if we have seen the work on some previous occasion. In reality, there are no boundary conditions on our perception of value, and whilst value is indeed *added* in the transformation process of opera (see chapter 2), there are no limits (other than the limits imposed by our own senses and experience) to the nature of the value we may perceive in opera (hence, for some, its *transcendent* nature; see Monelle 1979).

3.7 Summary

In this chapter, we discuss those models pertaining to value in opera which currently exist, either explicitly or implicitly, within the environment. Our discussion focussed on the UK.

We began by introducing the *powerhouse* model, an implicit, mechanistic model which involves deliberate distortion of the opera infrastructure in order to drive *artistic value* through the opera sector as a whole. It was also seen to assume linearity between *financial value* and *artistic value.*

The *public sector provision* model was seen to be based on an egalitarian ideal (access for all) and to involve the measurement of *artistic value* by proxy. Because of the emphasis on production, measurable outcomes, and the idea of universal demand which it entails, the *public service provision* model was also seen to result in homogeneity of supply i.e. the treatment of opera as a generic service (for classic example of this see Currie and Hobart 1994).

We next introduced the *productivity lag* or *cost disease* model, which was developed by Baumol and Bowen in the 1960s, and which is still considered a powerful explanator of rising costs in the arts. We introduced and discussed the assumptions and arguments of the *productivity lag* argument, and stated five main objections to its applicability in the 1990s.

The *merit good* model and the theory upon which it is based was introduced as probably the most significant single explanation of government involvement in the arts. With its emphasis on *market failure*, and the need to seek optimality of supply and demand in the market for the arts, the model was seen to combine normative criteria (decisions about the meritoriousness of supply) and non-normative criteria (decisions about the efficiency of supply). In this respect, the model was seen to be heavily paternalistic, permitting decisions about what ought to be supplied to be made in isolation to feedback from the market i.e. because the model assumes that consumers are not the best judges of their own welfare and the welfare of society as a whole, the market is considered to have failed.

The *socio-economic contribution* model was introduced as a more recent development, and was seen to stress the idea of the potential, measurable contribution which the arts, or sectors of the arts, may make to the *socio-economic environment.* Because it emphasises the potential financial contribution of artforms, such as opera, to the economy at both a national and local level (an emphasis on the instrumental value of the arts), the model was seen to invite analysis in terms of substitutability and opportunity cost. Although its virtue was to recognise the inseparability of *artistic value* and *financial value*, promoting the quantitative measurement of value, the results of such measurement were seen to be open to misinterpretation and, in terms of political and arts advocacy argument, to outright misuse.

Other models pertaining to value in opera were also discussed. These included the *artistic resource-base* model, an implicit, informal model based on the idea that government needs to maintain an opera sector in order to provide career opportunities for young, native talent (we developed this model by drawing analogy with ecological economics). The *information good* model (based on the idea of *information asymmetry* in the market for the arts) and the *added-creative-value* model (based on the idea of *innovation* as a measure of value) were also introduced and discussed in brief.

4. REFINING THE TRANSACTION MODEL OF OPERA

4.1 Introduction

> *Democratic nations... cultivate the arts that serve to render life easy in preference to those whose object is to adorn it. They will habitually prefer the useful to the beautiful, and they will require that the beautiful be useful* (de Tocqueville 1835-40:48).

Aesthetic theory has not traditionally concerned itself with the relationship between music and its economic environment. It is significant, therefore, that in the twentieth century both modernist and postmodernist aesthetic theory have aimed to explain *artistic value* explicitly in terms of the constructs of classical economics (viz Smith's *use value* and *exchange value*), and Marx's concept of commodity fetishism. This chapter is therefore devoted to an analysis of the key argument of the modernist and postmodernist programmes: the argument that music (including opera), because it exists in a market environment, will tend to become commodified and therefore debased, or stripped of *artistic value.*

Modernist and postmodernist aesthetic theory both situate art within a world of exchange relations (i.e. transactions in the market economy); both grapple with what we understand as the inseparability of *artistic value* and *financial value.* Yet, whilst modernism offers an aesthetic programme which attempts to resist the inevitability of music's systematic connectedness to the economic environment, by contemplating the utopia of music's possible autonomy within that environment, postmodernism accepts and exploits the fate of music's market existence (for an extended critique of postmodernism see Jameson 1991).

Perhaps the most succinct characterisation of these two aesthetic programmes is offered by Eagleton:

> *Modernism is among other things a strategy whereby the work of art resists commodification,*

> *holds out by the skin of its teeth against those social forces which would degrade it to an exchangeable object. To this extent, modernist works are in contradiction with their own material status, self-divided phenomena which deny in their discursive forms their own shabby economic reality. To fend off such reduction to commodity status, the modernist work brackets off the referent or real historical world, thickens its textures and deranges its forms to forestall instant consumability, and draws its own language protectively around it to become a mysteriously autotelic object, free of all contaminating truck with the real. Brooding self-reflexively on its own being, it distances itself through irony from the shame of being no more than a brute, self-identical thing. But the most devastating irony of all is that in doing this the modernist work escapes from one form of commodification only to fall prey to another. If it avoids the humiliation of becoming an abstract, serialized, instantly exchangeable thing, it does so only by virtue of reproducing that other side of the commodity which is its fetishism. The autonomous, self-regarding, impenetrable modernist artefact, in all its isolated splendour, is the commodity as fetish resisting the commodity as exchange, its solution to reification part of that very problem.* (Eagleton 1985:96)

> *...Postmodernism, confronted with this situation, will then take the other way out. If the work of art really is a commodity then it might as well admit it, with all the 'sang-froid' it can muster. Rather than languish in some intolerable conflict between its material reality and its aesthetic structure, it can always collapse that conflict on one side, becoming aesthetically what it is economically. The modernist reification - the work as isolated fetish - is therefore exchanged for the reification of everyday life in the capitalist marketplace. The commodity as mechanically reproducible exchange ousts the commodity as magical aura. In a sardonic commentary on the avant-garde work, postmodernist culture will dissolve its own boundaries and become coextensive with ordinary commodified life itself, whose ceaseless exchanges and mutations in any case recognize no formal frontiers which are not constantly transgressed. If all artefacts can be appropriated by the ruling order, then better impudently to pre-empt this fate than suffer it unwillingly; only that which is already a commodity can resist commodification.* (Eagleton 1985:97).

In this chapter, then, we aim to refine the theoretical basis of our transaction model by examining the key argument which underpins the modernist and postmodernist stance (the commodification of music argument) and briefly discuss its consequences for state support of the arts, and for the creation of *artistic value* in opera.

Specifically, we show that the commodification argument, as an existing explanation of the relationship between *artistic value* and *financial value* is not valid in the context of the current era. We also develop the concepts of intangibility and *perceived value* as they apply to our model and demonstrate the need to understand opera as a service and not as a product.

4.2 The commodification argument

Adorno, exchange value and commodity fetishism in music

In chapter 2 we introduced the idea of the *exchange value* and *use value* of commodities. We saw that these ideas, developed by Adam Smith, were taken up by Marx. Of particular concern in this context are the views of the German philosopher, sociologist and music theorist, Theodor Adorno (1903-69), who develops the Marxist analysis of *use* and *exchange values*, and for whom *all contemporary musical life is dominated by the commodity form* (Adorno 1938:33).

It is precisely because Adorno sees the commodification of artworks as a process of *de-artification* (Paddison 1993:104) that we need to consider his views. His argument amounts essentially to a denigration of the rôle of *economic value* in the realm of the arts. In Adorno's scheme of things this means that music, in the twentieth century, has come to have no other social function (*use value*) than that of *an abstract unit of exchange on the market* (Paddison 1993:98). That is to say, music is no more than pure *exchange value.* Even music of the past is viewed by Adorno as *powerless to prevent itself being absorbed and manipulated by the culture industry* (Paddison 1993:104).

Opera, commodity fetishism and exchange value

In order to explain the commodification of artworks as a process of *de-artification* (ibid. Paddison 1993), Adorno draws upon Marx's concept of commodity fetishism. Adorno applies this concept directly to the arts in order to portray the problem of the commodification of music, its *de-artification,* specifically as the problem of *musical fetishism* (Adorno 1938). In the following passage Adorno attempts to use Marx's definition of the fetish character of the commodity as a justification for what he sees as the focal rôle of *exchange value* in the realm of music:

> *Marx defines the fetish character of the commodity as the veneration of the thing made by oneself which, as exchange value, simultaneously alienates itself from producer to consumer - 'human beings'. 'A commodity is therefore a mysterious thing, simply because in it the social character of men's labour appears to them as an objective character stamped upon the product of that labour; because the relation of the producers to the sum total of their own labour is presented to them as a social relation, existing not between themselves, but between the products of their labour'. This is the real secret of success. It is the mere reflection of what one pays in the market for the product. The consumer is really worshipping the money that he himself has paid for the ticket to the Toscanini concert.* (Adorno 1938:34).

Since a fetish, by definition, is an object of worship (COD 1976) we may take Adorno to mean that because the ticket money is the object of worship, it is the ticket money, and not the concert or the music in the concert, which is the fetish. But to describe the consumer as really *worshipping the ticket money he has paid* (i.e. the *exchange value* of the concert, which Adorno here mistakenly equates with price; see chapter 2) represents a distortion of Marx's definition of commodity fetishism.

According to Marx's definition of commodity fetishism (Marx 1887:77), it is precisely the *objective character* of the commodity which comprises its fetish aspect. Now Marx characterizes the objective character of the commodity as *an abstract expression of human labour power*, such that *the labour spent on the production of a useful article, the commodity, becomes expressed as one of the objective qualities of that article i.e. as its value* (Marx 1887:67). This is where Adorno begins to depart from Marx's model, for by value in this context, Marx does not mean price but *exchange value.* Marx in fact emphasizes that price is not (*exchange*) value because *price... is distinguished from value not only as the nominal from the real; not only by way of denomination in gold and silver, but because the latter appears as the law of motions which the former runs through,* and because *the two are constantly different and never balance out* (Marx 1858:137). Thus the fetish aspect of a commodity has no necessary connection with its price or monetary value in the market: the ticket money cannot be the fetish object. (For similar confusion, see Jarvis's introduction to Adorno; Jarvis 1998:117-9).

Let us be clear, therefore, that Adorno's opening sentence, with its reference to *exchange value*, comprises no more than a gloss on Marx's definition of commodity fetishism. Marx's definition, which actually appears in the second sentence makes no implied or direct reference to price. This is why Adorno's use of the concept of commodity fetishism in music represents a distortion of Marx's economic theory.

Thus we reject Adorno's first attempt to debase what we have termed the transactional process which underlies artworks such as opera, on the grounds that the identification of price with *exchange value*, and therefore the identification of price with the fetish aspect of the commodity, has no basis in the theory upon which it depends.

Opera as pure exchange value or capital

There is, however, one special situation in which the fetish aspect of a commodity can come to be associated with price or monetary value; that is, when the commodity ceases to be an *ordinary commodity* and becomes the *money commodity* or *capital* instead. Now the money commodity, as pure *exchange value* has no *use value*. Thus, by stripping out *use value*, and by claiming that music has come to be valued on the basis of its *exchange value* alone (ibid. Adorno 1938:34, ibid. Paddison 1993:98), Adorno comes to equate the function of music with that of money or capital. To see the absurdity of this proposition, we need only replace the word *gold*, with the word opera (as representative of an artwork as commodity) in Marx's characterisation of the money commodity:

> *Commodities, first of all, enter into the process of exchange just as they are. The process then differentiates them into commodities and money, and thus produces an external opposition corresponding to the internal opposition inherent in them, as being at once use-values and values. Commodities as use-values now stand opposed to money as exchange-value. On the other hand, both opposing sides are commodities, unities of use-value and value. But this unity of differences manifests itself at two opposite poles, and at each pole in an opposite way. Being poles they are as necessarily opposite as they are connected. On the one side of the equation we have an ordinary commodity, which is in reality a use-value. Its value is expressed only ideally in its price, by which it is equated to its opponent, the gold, as to the real embodiment of its value. On the other hand, the gold* [opera]... *ranks as the embodiment of value, as money. Gold, as gold* [opera as opera] *is exchange-value itself. As to its use-value, that has only an ideal existence, represented by the series of expressions of relative value in which it stands face*

> *to face with all other commodities* (Marx 1887:107).

If Adorno wants us to accept, then, that music or, more specifically, an opera performance is not an *ordinary commodity* (*which is in reality a use value*) then this means that attending a live performance of opera must be, by definition, an essentially *useless* activity (one which possesses *exchange value* only). It would also mean, in the absence of *use value*, that making the effort to go to the theatre in the first place must, therefore, have nothing whatsoever to do with *the satisfaction of wants*; that going to the opera is about nothing other than the circulation of the money commodity in question:

> *The simple circulation of commodities - selling in order to buy is a means of carrying out a purpose unconnected with circulation, namely, the appropriation of use values, the satisfaction of wants. The circulation of money as capital is, on the contrary, an end in itself, for the expansion of value takes place only within this constantly renewed movement... Use values must never therefore be looked upon as the real aim of the capitalist.... The restless never-ending process of profit-making alone is what he aims at. This boundless greed after riches, this passionate chase after exchange value, is common to the capitalist and the miser... The never-ending augmentation of exchange value, which the miser strives after, by seeking to save his money from circulation, is attained by the more acute capitalist, by constantly throwing it afresh into circulation* (Marx 1887:151).

Effectively this means that we go to the theatre merely for the sake of a *passionate chase after exchange value.* By taking Adorno's argument to its logical endpoint in this way, we make manifest the absurdity of its premises. What we see, in fact, is a further distortion of Marx's economic theory because it posits opera as a medium of exchange, a commodity whose only value lies in its potential purchasing power over other commodities i.e. as something worth hoarding or investing. Marx only posits one medium of exchange, and that is money (and in the context of the nineteenth century, that meant gold).

We need also to be aware of the propagandistic element in Adorno's argument, the implication that there is something insidiously corrupt or debasing about the *use-exchange value* relation, or, when we apply the medium of money, the transaction we effect when we pay for our ticket to an evening at the opera. Now, there are two ways in which this can be read: either we *worship* the ticket money, or we regard opera itself as capital. Adorno's normative argument falls over completely in the first instance if we change the currency, the denomination of the *exchange value* represented by the ticket. For example, if we were to pay for our ticket in a currency of boiled eggs, by Adorno's logic, we would in effect be *worshipping* the boiled eggs and by this means be trading our opera performances as a way of *augmenting* our boiled egg reserves, i.e. our boiled eggs as pure *exchange value* or capital. Even if we were to take Adorno to mean that we were trading the opera performance itself as a form of money commodity, we cannot escape the absurdity. Indeed, it is impossible to say what this would mean or how it would be done.

The only practical and logical way in which an opera performance can be used as the focus for an *augmentation of exchange value*, for *the circulation of money as capital* (ibid. Marx 1887:151) is by means of ticket touting. This provides the only context in which Adorno's argument can be successfully applied. The ticket tout at a Pavarotti concert, for instance, only sells his ticket for the sake of profit: he has no *use value* for the concert per se; *artistic value* is of no interest to him. His only interest in the concert is as a focus for his trading activity, for the *augmentation of exchange value*, as he speculates on the face value of the ticket he sells. The important point here is that the tradable item (what we understand as the commodity) is not the concert, not the artwork, but the ticket alone.

Thus we reject Adorno's second attempt to debase the transactional process which underlies artworks such as opera, on the grounds that identification of the artwork with the money commodity again distorts the *economic value* theory upon which this very identification is based.

Fetishism, Freudianism, and the debasement of the use-exchange value transaction

We find, then, that Adorno tries to equate the abstract character of *exchange value* with price, and so equate price or monetary value with the *objective qualities of the commodity* (ibid. Marx 1887:77). He does this precisely in order to elaborate upon the *feelings*, the *psychological aspects* and the *ersatz satisfaction* which he claims the process of consumption involves:

> *The couple out driving who spend their time identifying every passing car and being happy if they recognize the trademarks speeding by, the girl whose satisfaction consists solely in the fact that she and her boyfriend 'look good', the expertise of the jazz enthusiast who legitimizes himself by having knowledge about what is in any case inescapable: all this operates according to the same command. Before the theological caprices of commodities, the consumers become temple slaves.* (Adorno 1938:35).

Adorno uses the above analogies specifically within the context of his discussion of the fetish character in music. So we must take Adorno to mean, by means of these parallels, that b*efore the theological caprices of* music *commodities* (such as opera, for instance) the music *consumers become temple slaves.* Now this is a very emotive argument: that musical fetishism creates enslavement; that it enslaves those who consume it.

Adorno achieves this by utilising the post-Freudian connotations of the word *fetish*, which are primarily pejorative (see Freud 1966-74(13)). But Marx defined the fetish aspect of the commodity in a pre-Freudian context, that is, according to the original, now strict, meaning of the word *fetish* as: *an inanimate object worshipped by primitive peoples for its supposed inherent magical powers* or as *being inhabited by a spirit* (COD 1976). The idea of the fetish as an abnormal stimulus or object of sexual desire is a later development.

This observation brings us to our next point: that Marx nowhere uses or implies the concept of consumption slavery or enslavement of consumers in the small chapter in *Das Kapital* (Marx 1887) which he devotes to a definition and characterisation of commodity fetishism. When Marx states that *to [producers] their own social action takes the form of the action of objects, which rule the producers instead of being ruled by them* (Marx 1887:79) he is characterising the rôle of fetishism in the mediation of social relations between producers in the bourgeois economy. He is not characterising the relations between commodity and consumer. It must be remembered that Marx is writing from the point of view of production relations, whereas Adorno is writing from his historical standpoint at the appearance of the first mass markets and first evidence of mass consumption (for background see, for instance, Dibb et al. 1997, and Kotler 1984). These two perspectives are largely incompatible. We can see this because Marx characterizes compulsory labour (slavery) by the very absence of commodity fetishism: *for the very reason that personal dependence forms the groundwork of society, there is no necessity for labour and its products to assume a fantastic form* (i.e. a fetish aspect) *different from their reality* (Marx 1887:81).

To see the extent to which Adorno relies upon Freudian metaphor, let us try to restore some of his sentences to their strict statement, as they might appear in the context of Marx's theory:

> *The fetish character of music produces its own camouflage through the identification of the listener with the fetish.* (Adorno 1938:42).

becomes :

> The objective character of music as a commodity produces its own camouflage through the identification of the performer with the objective character of the music (i.e. the labour spent on its production).

or :

> *At its most passionate, musical fetishism takes possession of the public valuation of singing voices.* (Adorno 1938:32).

becomes :

> At its most passionate, veneration of the objective character of music as a

commodity (i.e. the labour spent on its production) rules the performers' valuation of singing voices.

and :

> *Before the theological caprices* [fetish aspects] *of commodities, the consumers become temple slaves.* (Adorno 1938:35).

becomes :

> Before the objective character of commodities, the producers [not consumers] see that *their own social action takes the form of the action of objects, which rule the producers instead of being ruled by them* (Marx 1887:79).

Adorno's sentences thus changed do not stand scrutiny: their logic is disrupted. We are left with a series of disconnected assertions, the last of which, in particular, has no connection with the act of consumption.

By stripping out the Freudian metaphor we see that Adorno's system of thought bears no relation to Marx's theory; and therefore, no relation to the theory on which it is premissed. In the absence of this Freudian overlay, the doctrinal nature of Adorno's system of thought thus becomes clear. We can see that its basis is a priori, for Adorno offers us no evidence, no practical demonstration of the phenomenon of musical fetishism. Indeed, it is precisely because there is a complete absence of testable observation in Adorno's argument, that we can describe it as an attempt to build a doctrine of the fetish aspect of music.

We therefore reject Adorno's attempt to debase the transactional process which underlies artworks such as opera, on the grounds that: a) a Freudian interpretation of commodity fetishism which centres on consumer enslavement distorts the theory upon which it is premissed; and b) that the concept of musical fetishism, as propounded by Adorno, exhibits logical dependency upon a priori principles, is untestable, and therefore amounts to dogmatic conjecture.

Misuse of the term, commodity

Adorno also equates the term commodity in a pejorative way with the *standardized good;* he sees the listener as *hemmed in by standardized musical goods* (Adorno 1938:26). Now, briefly, this leads Adorno to infer that because classical musical goods are standardized (commodified) their *familiarity* becomes a *surrogate for the quality ascribed* to them (Adorno 1938:26). Adorno would like the listener to listen accurately, to *demystify the work as commodity* in order to understand the musical work as *an objectively structured thing, meaningful in itself* (Paddison 1993:106). What Adorno's argument here represents, then, is not a discussion about the rôle of *economic value* in the context of music, but the defence of his own normative *artistic value* system against the competing system which is posed by what he perceives as the standardization of musical goods.

Again it is important to recognise Adorno's historical standpoint; that unlike Marx, he is writing in the context of mass production and mass markets. By *commodity* then, in the context of music, Adorno means a work of classical music that, via the standardization process of early twentieth century concert programming and promotion, is aimed at a mass market; that is selected for its effectiveness as a *consumption good* and as such becomes an instrument of a *masochistic mass culture* (Adorno 1938:35). In other words, this is a propagandistic argument against the rôle of the transaction in the realm of the arts: any music which is *marketable* (Adorno 1948:21) by the *culture industry* (Adorno 1948:5) and suffers the *ubiquity of commercialism* (Adorno 1948:19) is commodified.

Now to use the term *commodity* in this pejorative way does not accord with Marx's use of the term. We must be careful here, since there are now several ways in which the word commodity can be used; some meanings are more precise than others. For instance, Marx uses the term dispassionately to mean any *useful article* which has been produced as the result of human labour (Marx 1887:54), whereas the economist today may use it more specifically to mean either: *a good that is tangible and can be transported (as opposed to a service)*, or in terms of commerce, as *a raw material that is traded on international commodity markets* such as wheat or tin (Stiegeler 1986; see also Hussain 1987). Now, although these definitions vary in their scope, they nevertheless all remain consistent with the original sense in which the term was used (i.e. *useful article*). It is thus by means of etymological analysis of the word commodity, that we will find evidence to support our view that Adorno's pejorative use of the term is untenable in the context in which he applies it.

In its original sense, the term *commodity* was used to designate a quality or condition of things in relation to the needs of men. Hence, a thing could have the quality of being *commodious*, fitting or of having utility. Now, with the development of mercantile trade in the fifteenth century, the term came to take on its two-fold nature as *a thing of commodity, a thing of use or advantage to mankind*; and as *a kind of thing produced for use or sale* (OED 1989). So the commodity in its original, economic, sense combines utility and tradability, but the necessary condition remains utility or *use value.*

Since the seventeenth century, however, the word *commodity* has also come to be used in a figurative sense to mean *anything that one trades or deals in* (OED 1989). Here, the emphasis is upon trade and profit in the pejorative sense, as opposed to utility, usefulness, or commodiousness in the original sense of *advantage to mankind*. Hence we even find an instance, from this time, in which the term is used to refer to the whore as commodity (OED 1989). This has the effect of turning the intended sense of *advantage to mankind* on its head (we might generally agree that this represents a negative externality). Thus begins the subversion of the very concept of commodity itself: the original definition is overturned such that tradability, not utility, becomes the necessary and sufficient condition for a commodity.

It is in this subversive, rhetorical sense that Adorno comes to use the term commodity. He talks of *the transfer of the use value of consumption goods to their exchange value* (Adorno 1938:34), that is, a shifting of the emphasis from utility to tradability. For Adorno, the term *commodity* has, it seems, come to signify a thing of disutility. Thus Adorno allows a fatal error in his application of Marx's theory of commodity fetishism: that is, the use of the term *commodity* in a rhetorical sense, when it is the original economic sense only that is proper to the context of Marx's theory.

This mistaken, or at best, ambiguous, use of the term *commodity* features in the writings of Marcuse, like Adorno, a member of the Frankfurt School of Critical Theory. Consider Marcuse's version of commodity fetishism:

> *The so-called consumer economy and the politics of corporate capitalism have created a second nature of man which ties him libidinally and aggressively to the commodity form. The need for possessing, consuming, handling, and constantly renewing the gadgets, devices, instruments, engines, offered to and imposed upon the people, for using these wares even at the danger of one's own destruction, has become a 'biological' need* (Marcuse 1969:20).

That Marcuse intends the word *commodity* to be read in a rhetorical, and here, specifically Freudian sense is clear. What is not clear is whether Marcuse would include the arts amongst his list of *wares*? But we can answer this by examining what Marcuse proposes when he talks of *the new sensibility* and the rôle of the *aesthetic*:

> *Throughout the centuries, the analysis of the aesthetic dimension focussed on the idea of the beautiful... For the artist, the beautiful is mastery of the opposites 'without tension, so that violence is no longer needed...' The beautiful has the 'biological value' of that which is 'useful, beneficial, enhancing life'* (Marcuse 1969:34).

This bears remarkable correspondence to the original definition of the *commodity* : utility is the key concept here. However, Marcuse (who is here quoting Nietzsche) seems to be going in circles. What is the difference between a thing which is *useful, beneficial, and enhancing life* (the Marcuse-Nietzsche concept of beauty) and *a thing of use and advantage to mankind* (the commodity)? Marcuse goes on:

> *By virtue of these qualities* [usefulness, beneficialness, enhancement of life, viz. the qualities of commodities], *the aesthetic dimension can serve as a sort of gauge for a free society. A universe of human relationships no longer mediated by the market, no longer based on competitive exploitation or terror...* (Marcuse 1969:35).

Marcuse then, like Adorno, uses the term *commodity* in the context of the arts, in a rhetorical sense. What makes this use inappropriate is the fact that in both cases it is being used in the context of Marx's economic theory; and we have already seen that Marx uses the term in its original, economic, sense. It is not sufficient to argue that Adorno and Marcuse are not so much applying as developing Marx's theory, thereby excusing their subversion of the term commodity. We argue that this is not a sufficient justification because to use an exaggerated, histrionic sense of the term in the context of Marx's economic theory results in the intrusion of dependent judgement into a an objective system based on independent scientific observation (for background see Marx 1888, Marx and Engels 1846, and Engels 1878, 1886). It is to forget the empirical footing of Marx:

> [Marx] *is primarily a theoretician busied with the analysis of economic phenomena and their organization into a consistent and faithful system of scientific knowledge; but he is, at the same time, consistently and tenaciously alert to the bearing which each step in the progress of his theoretical work has upon the propaganda. His work has, therefore, an air of bias, such as belongs to an advocate's argument; but it is not, therefore, to be assumed, nor indeed to be credited, that his propagandist aims have in any substantial way deflected his inquiry or his speculations from the faithful pursuit of scientific truth... There is no system of economic thought more logical than that of Marx* (Veblen 1906:276).

Thus we reject the attempt to build a doctrine of the fetish aspect of artworks such as opera, on the grounds that the usage of the term *commodity*, in its rhetorical and Freudian sense, within the context of Marx's economic theory results in the intrusion of a second, incompatible frame of reference within that very theory; that it destroys the very basis of its justification.

Invalid use of the term commodity, the rôle of intangibility

We can also object to Adorno's use of the term *commodity* on the grounds that the term does not adequately account for the nature of the transactional process which underlies music artforms such as opera. We will demonstrate the invalidity of the *commodity* descriptor specifically in the context of opera by showing that the perceived *use value* of opera (its *artistic value*), in live performance, broadcast or recorded form, involves a high degree of intangibility. We will show that because of this intangibility, opera must be regarded as a *service*; and that the definitional criteria of the service are mutually exclusive with those of the *commodity*.

We have already demonstrated that Adorno equates music as a *commodity* with the *standardized good* (ibid. Adorno 1938:26); that is, with the mass produced or mass marketed product. Now, in terms of modern economic and marketing theory, such mass market products are defined as *undifferentiated* (Kotler 1984:267). By undifferentiated or mass marketing is meant the process of offering a single product to the broadest number of buyers (the whole potential market for that product).

The classic example of an undifferentiated product is the model T Ford, originally produced with a black paint finish only. Differentiation of this product began with the introduction of an alternative, grey paint finish i.e. with the deliberate introduction of choice. Until this point, the model T Ford was a single, standardized product (for background see Dibb et al. 1997). Adorno, in effect, is asking us to equate opera with the idea of the undifferentiated good. But if opera is undifferentiated, how might we explain the rich variety of opera forms that have developed in the course of operatic history e.g. *opera seria, opera buffa, tragédie lyrique, ballad opera, rescue opera, verismo, chamber opera* and so forth. Historically, opera does not appear to be standardized; on the contrary, it appears to be very highly differentiated. This is our first point.

Let us be clear, *differentiation* begins when the total potential market for a product or service is segmented or analysed out into different component parts, such that the product or service can be varied to suit each of those component parts (Kotler 1984:269). Now there are many ways of segmenting markets; by geographical factors, by buyer preference, by age, social grouping and so forth. But, since this is not a study in marketing, we need not detain ourselves, here, with the mechanics of market segmentation.

Suffice it to say, that in the history of opera itself we can cite good examples of what is meant by the process of product or service differentiation. For instance, the quarrel or *guerre des bouffons* which developed in 1752 between two groups of Parisian music and opera enthusiasts, represents exactly the kind of competitive pressure which can lead to product or service differentiation. In this case, the competition, between supporters of the incoming Italian *opera buffa* and the established French opera led to a competitive response by French opera composers. The response of these composers was to take up the concept of the *opera buffa* and tailor it specifically to suit a particular, definable segment of the Parisian market for opera. This differentiated form was known as *comédie mêlée d'ariettes*. Examples of this nature demonstrate that opera is not a standardized, mass market good i.e. it is not a *commodity* in the Adornian sense of undifferentiated good.

The second point we wish to make is that Adorno, in his use of the term commodity, fails to take account of the rôle of intangibility and the way in which *use value* is perceived.

In terms of modern market and economic theory, the key criterion which is used in the test for a commodity is that of tangibility i.e. the quality of being perceptible by touch. We recall that a commodity is either: *a good that is tangible and can be transported (as opposed to a service)*, or *a raw material that is traded on international commodity markets* (ibid Stiegeler 1986).

Most importantly, this means that a product or service is defined according to the way in which it is *perceived* (and therefore, that its *value* is derived from the way in which it is perceived). This test, for degree of tangibility, can be expressed in the form of the product-service continuum (see Figure 4-1). In the product-service continuum, a pure product can be seen to possess tangible factors alone, and a pure service, as its opposite, to possess intangible factors alone:

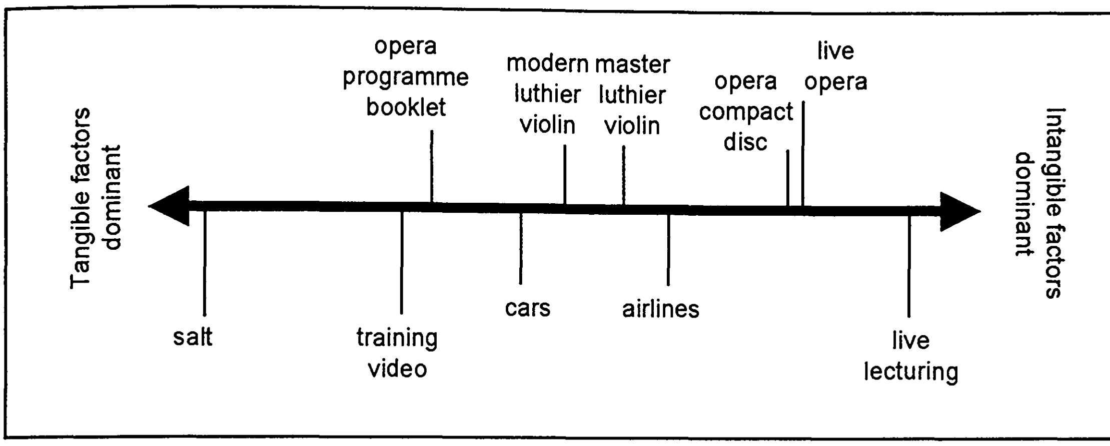


***Figure 4-1** : The product-service continuum (adapted from Shostack 1977:77)*

Now, the possibility of the pure product and the pure service is largely theoretical. A live lecture, for instance, which involves the communication of ideas, can be understood as almost wholly intangible (see again Figure 4-1). This means that the service element in the live lecture is strong. However, there is always the possibility that the lecturer may distribute a printed summary, or handout, thereby introducing a tangible element into that service.

This is a simple example. In a more complex context, the product-service continuum demonstrates the importance of the rôle of tangible and intangible factors in the perception of value. For instance, although we have placed cars (in the generic sense) almost midway along the continuum (Figure 4-1), this does not reflect the complexity and degree of differentiation in the car market as it operates in practice.

An off-road, four-wheel drive vehicle, for example, may be bought by a farmer on the basis of its functional qualities: its ability to solve a variety of transport problems such as transporting equipment, hauling livestock trailers across rough terrain, as well as its ability to function as a family car; in other words, as a more adaptable version of the traditional pickup truck. Intangible factors connected with image may, in this case, play a very insignificant rôle in the purchase decision. The purchase decision of the individual who lives and works in an urban environment, however, may exhibit the reverse relation i.e. the decision may be driven almost solely by intangible factors and not by function (anecdotally, it is thought that most four-wheel vehicles bought in the UK are in fact never taken off-road). Differentiation across the available range of four-wheel drive vehicles, in the context of this urban market, may be made largely on the basis of styling features, such as chrome, metallic paint, and customising options such as leather seats, all of which are designed to convey messages about the image or social status of the owner. But such features, though tangible in themselves, serve collectively to add intangibility (i.e. to add perceived value); they do not in any way alter the functional qualities of the vehicle or product itself.

The rôle of intangibility in the perception of value is not restricted to obvious consumer goods such as cars. It is a feature of the market for quality stringed instruments, for instance, that named old master instruments such as those by Stradivarius, Guarnerius, and so forth exhibit a higher auction value and greater player demand than do the master instruments of modern prize-winning luthiers (Aston 1979:365, Lewin 1979:594).

Although it is argued that there is no perceivable difference in the playing quality of old master and modern master instruments (the latter once played-in), overall, players retain a preference for the old instruments. Now this preference has nothing to do with the value of these older instruments as authentic instruments (whether or not they have been modernized or restored is largely moot). Rather, this situation can be explained by the rôle of intangible factors in the player purchase decision. An old instrument may exhibit a patina created by years of handling, it may carry with it an interesting history of ownership, and the beauty or perceived sound-enhancing qualities of its varnish may be attributed to a unique or secret recipe. All these factors may combine together to create in the player's mind the sense that he is handling a living thing which cannot be replaced by a modern instrument, no matter how good. Indeed, the whole question of unique or secret varnish recipes is much vexed, and may be based on a fiction (Campbell 1983:736). This is interesting, because it demonstrates the power of intangibility in the context of the perception of value; that is, the difference between an old and a modern master instrument may be the result of different perception of intangible factors. Interestingly, we must assume that the player believes these intangible factors will also have a bearing upon the *artistic value* of his or her performance.

Now, the live performance of opera presents us with an interesting problem. We cannot describe the degree of intangibility which the live performance of opera exhibits without first deciding what constitutes the performance. We can understand the combination of music and scenic effect as a combination of intangible elements; we cannot touch the performance. In this sense, opera is heavily intangible; more service than product orientated. But a visit to the opera, may involve a whole range of adjunct tangible elements, such as an interval drink, the programme booklet itself, a comfortable or uncomfortable seat. So it depends to what extent our definition of the live performance of opera is inclusive of these elements as to how we will express the degree of intangibility of the performance on the product-service continuum.

The type of intangibility involved in an opera compact disc is different, but nonetheless significant. For instance, a collector of recordings or hi-fi enthusiast might deem the value of digital sampling very significant in his or her purchase of a compact disc. Such individuals may claim to perceive the advantage of such productional technology in the resultant recording, even though an engineer may regard such differences as non-demonstrable. The professional musician, however, may disregard the productional qualities of the disc altogether, and concentrate on the interpretation or performance itself. But in every case, intangible factors provide the basis of the *use value* which the individual perceives, and therefore the price he is willing to pay.

Now this connection with price (*financial value*) is significant. In the context of services, for instance, it is often the tangible and intangible factors surrounding the core service which serve to differentiate it and alter the way in which its *use value* is perceived. Airlines and opera companies alike operate differential seat pricing policies precisely on this basis.

An airline, for instance, may price a club class seat on the basis of better food, more drinks, more space (tangible factors) and increased flight attendance, baggage priority, or added comfort (intangible factors). Now these factors are not central to the core service, the flight itself, but any one, or a combination of these factors may be of key importance to the individual passenger's perception of *use value*. Where these perceived *use value* factors are of sufficient importance to the passenger, he or she will then be prepared to accept a higher price for the seat. Resident opera companies price seats on precisely the same basis (although not with the same degree of sophistication). For instance, a dress circle seat may be offered on the basis of social mix (intangible), access to dedicated bars (tangible), as well as good sight line (tangible). If our definition of the live performance of opera does not include these surrounding perceived *use value* factors, we will be unable to explain why some audience members are prepared to pay higher ticket prices than others.

This is not to say that the perceived *use value* of a product or service cannot be derived solely from the core element of that product or service. In the same way as the airline *Easyjet* came to the market with a basic service, stripped of all supplementary tangibles and intangibles (e.g. no in-flight service, no differential seat pricing), so too, it is possible to value live opera in isolation to, or abstracted from, the conditions or situation of its performance. But we have shown (because of differential seat pricing) that in practice it is not generally valued in this way.

Historical examples also confirm this. The purpose of spacious foyers in eighteenth century Italian opera houses, for instance, was to provide a venue for gambling, and quite often the opera house would be granted a monopoly concession on games of chance. It was also true that gambling promotion provided an entry for potential opera impresari to the running of opera seasons (Rosselli 1984:28), thus underlining the close connection between the tangibility of gambling paraphernalia, the intangibility of a gambling atmosphere, and the opera performance itself. Moreover, audience members could even go so far as to make the opera performance the adjunct of their own private entertainment: at La Scala, Milan, up until the early nineteenth century, it was possible to draw the curtains of each box, in order to make a self-contained drawing-room within which to continue chatting, eating, gambling, or visiting friends undistracted (Rosselli 1984:10); and much the same applied in seventeenth century Venice (see Kimbell 1991:120, and Bianconi and Walker 1984). Such things, we have to admit, have historically formed an important part of the perceived *use value* of opera. *Artistic value* is therefore a very broad concept when viewed in this light.

Moreover, there is strong historical justification for regarding the live performance of opera not as an end in itself, but as part of the means of an overall service package, which, when taken as a whole makes the experience of art a very full and wide ranging one; if not, as Stendhal would have us understand, also a very fragile one:

> *...an opera may inspire the most disproportionate havoc of enjoyment one night, and three nights later, occasion nothing more than an infinite weariness of boredom or an infuriating irritation of the nerves. The causes of this revolution may be insignificant - a shrill-toned, yapping female voice in a near-by box; or over-heating in the auditorium... indeed, the enjoyment of music is in so large measure purely physical, that, as the reader will have observed, it may depend upon the presence or absence of phenomena which, in description, seem unbelievably trivial.*
>
> *As often as not, an evening which promises the exquisite delights of Madame Pasta, and the added luxury of a comfortable box, may be completely 'ruined' by the hateful intrusion of just some such ignoble triviality. One might ransack one's brain for hours on end, exploring the*

> *most delicate intricacies of metaphysics, or the subtlest niceties of literary criticism, to explain why 'Elisabetta' seemed suddenly so unpalatable, whereas the real reason is simply that the auditorium was too hot and that, as a result, one was feeling thoroughly uncomfortable... the 'Théâtre Louvois'* [Paris, home of the Opéra Bouffe] *is unrivalled in providing draw-backs of this character, and generally in obstructing the enjoyment of music; and whenever such an obstruction arises, one stops listening 'naturally' and starts listening 'academically'...* (Stendhal 1824:15).

Perception, then, plays a fundamental rôle in the transaction or trade of values. Even in the case of a true commodity such as salt (see again Figure 4-1), there is potential for the addition of intangible factors. Salt from the Alps, for instance, has been marketed as particularly pure (e.g. *Saxo mountain source rock salt, Saxo naturally evaporated sea salt*). This is an attempt not only to add intangibility in order to augment perceived *use value* to the potential buyer, but it is an attempt to transform the salt from its commodity status, in order to seek a premium on its price (*financial value*); such premium as we have already encountered in the example of differential seat pricing for opera. Since salt is salt (sodium chloride, excepting impurities) regardless of its origin, this demonstrates again, the extent to which value is a function of perception. Hence, in theory: *there is no such thing as a commodity. All goods and services are differentiable* (Levitt 1981).

To be clear, in marketing and economics, the branch of theory which deals with the intangibility, differentiability and perceived value of products and services is known as brand theory (for background see Doyle 1991a). It is a powerful theory, not only as an explanator of consumer behaviour, but as an explanator of the way in which *value* can be *added* to products and services in a variety of special ways. Specifically, when value is *added* to a product or service by means of differentiation from competing products or services, and is given a special trade name (brand name), it is said to be a branded product or service (e.g. *Anadin*, which is a branded version of the generic drugs asprin and paracetamol). Now, although we do not need to concern ourselves with the details of brand theory and brand valuation, suffice it to say that the process of branding a product or service, by means of building in intangibility, leads to a profound effect on the price of that product or service. Consumers, because they trust the brand, may well pay more for *Anadin* than its generic equivalents. Conceptually, then, there is a great distance between a brand and a commodity.

Our concern with Adorno's usage of the word *commodity* now begins to make sense. To make our understanding of terms absolutely clear, we can construct a small matrix (Table 4-1):

	Product	Service
Undifferentiated	*commodity* e.g. tin	[rare e.g. porterage in an undeveloped economy]
Differentiated	*may be branded* e.g. opera compact disc	*may be branded* e.g. opera company

***Table 4-1** : Product-service differentiation matrix*

The live performance of opera, or indeed, of any music artform, is not a commodity primarily because it exhibits a high degree of intangibility (is a service), but also because it can be differentiated. Specifically, products are distinguished from services according to five commonly used criteria: *intangibility*, *inseparability*, *heterogeneity*, *perishability*, and *ownership* (for background see Cowell 1991). Arguably, the most important of these is degree of intangibility:

> *Services are essentially intangible. It is often not possible to taste, feel, see, hear or smell services before they are purchased. Opinions and attitudes may be sought beforehand, a repeat purchase may rely upon previous experience, the customer may be given something tangible to represent the service, but ultimately the purchase of a service is the purchase of something intangible* (Cowell 1991:457).

So, Adorno's ticket is merely one *tangible* element (along with the programme booklet we assume his *temple slaves* will buy) which *represents* the live opera performance as service. Though even here there is an interesting complication: the programme booklet itself, as a tangible element in the live performance of opera, can exhibit a degree of intangibility. Opera North indeed augmented a production of *The love of three oranges* in the mid 1990s with a *scratch and sniff* programme. Whether individual members of the audience *perceived value* as a result this intangibility is an interesting question: to some it might have added to the spirit of an evening in the theatre, and act to complement the spirit of the opera, to others it might have acted as an irritating distraction. We simply cannot predict what would maximize consumer welfare in this instance.

In the following table, in order to make it absolutely clear why opera is not a product, and certainly not a commodity, we will test the live performance of opera against the five characteristics of a service referred to above:

SERVICE CHARACTERISTIC	IMPLICATIONS	LIVE OPERA
1. Intangibility	Since services are essentially intangible, opinions and attitudes may be sought before purchase. [Commodities are tangible]	Opinions and attitudes may be sought via promotional material, books, published reviews and word of mouth in order to reduce uncertainty (and therefore perceived risk).
	Repeat purchases depend upon previous experience.	Repeat purchases (of the same or a different production, at the same or a different theatre) depend upon previous experience of factors including composer, genre, performers, and venue. Hence the rôle of familiarity (cf Adorno).

SERVICE CHARACTERISTIC	IMPLICATIONS	LIVE OPERA
	Tangible (as well as intangible) elements may be built around the service as a means of augmenting overall perceived *use value*.	Tangibles, such as programme booklets, bars, a theatre shop, and intangibles such as priority booking, subscription deals, opportunities to meet the performers, friends groups, pre-performance talks, private function room hire, may all be employed by resident opera companies or opera receiving houses.
2. Inseparability	Services often cannot be separated from the person of the producer. That is, the creation and performance (or consumption) of the service may comprise a single event e.g. medical treatment. This means that services are usually sold, produced and consumed, whereas products are usually produced (or purchased), sold and consumed. Also, it implies the presence of the producer i.e. unmediated relations between buyer and seller. [Commodities as tangible items are separable from the producer].	The creation of the performance and its consumption comprises one event. Opera performances are sold before the point of consumption and require the presence of the producer (here, the opera company). This means that relations between the audience as consumers and performers as producers are direct (viz. Adorno's concept of mediated relations which disregards the critical rôle of performers and non-stage personnel in the production of music; see Adorno 1948:8).
3. Heterogeneity	It is often difficult to achieve standardization in the output of certain services. The standard of a service in terms of its conformity to what may be prescribed by the seller may depend on who provides the service and when it is provided. From the point of view of the potential buyer, then, it is often difficult to judge quality in advance of purchase. [Commodities as produced, tangible items can be standardized].	Performances of opera cannot be standardized; no musical phrase can be played the same way twice (except when reproduced by means of a recording). Production runs often require double casting, creating variability according to which cast member is singing on which night. The potential buyer cannot judge the quality of a performance in advance, especially as cast members may fall ill.
4. Perishability	Services are perishable and, unlike commodities, cannot be stored. Empty seats on a flight, for instance, cannot be stored for future sale. Empty hospital beds represent lost capacity in the same way.	Individual opera performances cannot be stored. That is, productions can be stored, but individual performances are perishable. Empty seats in the theatre represent lost capacity.

SERVICE CHARACTERISTIC	IMPLICATIONS	LIVE OPERA
	Demand fluctuations may aggravate the perishability of the service. This places emphasis on the rôle of marketing decisions in countering such fluctuations e.g. differential pricing and special promotions.	Low box office sales, due to bad reviews, unpopular cast replacements, competing events, or poor tourist seasons, for instance may lead to the cancellation of current or planned future productions. Anticipated low demand for productions which are perceived as difficult or experimental (and therefore unfamiliar i.e. no previous experience possible) may be countered by means of special ticket promotions. Subscription income plays a vital rôle in smoothing demand in this way.
5. Ownership	Lack of ownership is a basic difference between a product and a service. Whereas a product can be owned, a service cannot. In the case of a service, the customer buys access to, or use of the service only e.g. hotel rooms, car hire.	An opera performance cannot be owned; a ticket buys access to the performance, and use of the venue facilities e.g. bars. The programme booklet, as tangible supplement to the performance, can, however, be owned.

Table 4-2 : Opera as a service

We note here that the application of the above theory to the arts is not new. It has been applied in the context of the arts as a generic service i.e. the arts in general as opposed to individual artforms as services (see Hill et al. 1995:101). However, the analysis developed by Hill et al., which uses only four characteristics, is flawed because it confuses *inseparability* with *ownership*. It is important to note that these two characteristics of a service carry quite different marketing implications i.e. *inseparability* implies buyer risk which needs to be lessened or overcome, whereas lack of ownership provides the *raison d'être* for adjunct tangibles (such as programme booklets) which can be owned and can thus serve to augment the perceived *use value* of an evening at the opera. It is particularly important that we are clear about this difference, especially in the context of our analysis of Adorno's argument about the commodification of music.

be owned and can thus serve to augment the perceived *use value* of an evening at the opera. It is particularly important that we are clear about this difference, especially in the context of our analysis of Adorno's argument about the commodification of music.

Inseparability, as we have seen, implies the presence of the producer at point of consumption. This means that the performance must be sold before it is produced and consumed. From the point of view of the potential audience member, this introduces an element of risk into the purchase of a ticket. Specifically, it places emphasis on the rôle of marketing i.e. it is through good marketing and promotion that the potential buyer may be converted into an actual buyer; that is, because of uncertainty (see chapter 2) the potential buyer has to be convinced that the evening is going to prove a worthwhile experience.

Now, if that potential buyer happens to be inexperienced, or new to opera, the marketing message may be of critical importance in his decision to purchase or not to purchase. It is this process, the process of developing new audiences, that Adorno can be seen, in effect, to have difficulty accepting. He rejects the use of labels such as *classical* in the context of music promotion (Adorno 1938:27). But, because opera exhibits inseparability, we can see the vital rôle of even basic marketing communication in overcoming perceived risk. By denial of the value of the marketing process in this way, Adorno, in effect, denies the opera company the opportunity to cultivate new audiences. This, as we have seen, would also result in aggravating the *perishability* of opera by cutting the opera company off from future box office income (i.e. a source of *financial value* input in the environment).

We must also note the importance of lack of *ownership* in the context of our case against Adorno. Since, unlike a tangible commodity, opera cannot be owned, the question arises as to what exactly Adorno's *temple slaves* might be worshipping in the context of opera: the use of or access to a service? There is little logic in the idea that the producers of opera might be worshipped by the *temple slaves* for the particular service they offer. Indeed it is a contradiction in terms that a slave can ever be served.

Interestingly, Marx also defines commodities as: *social things whose qualities are at the same time perceptible and imperceptible by the senses* (Marx 1887:77). Now by imperceptibility Marx means the observation that there exists a complex set of factors which surround the *commodity* and which govern the process he calls *the satisfaction of wants, the appropriation of use values.* From our point of view, the importance of Marx's use of the word imperceptible is the identification that value is as much *perceived* as real[2].

We reject Adorno's use of the term commodity in the context of music, specifically in the context of opera, because: opera exhibits a high degree of intangibility, is differentiatable (unlike the commodity, which is undifferentiatable), and conforms to the definitional criteria of a service (criteria which are mutually exclusive with those of the commodity).

The use-exchange value relation disrupted

For Adorno, the commodification of music, its *de-artification* (ibid Paddison 1993), involves the loss of function or *use value* of music, such that its *use value* comes to be replaced by *exchange value* :

> *If the commodity in general combines exchange value and use value, then the pure use value, whose illusion the cultural goods must preserve in a completely capitalist society, must be replaced by pure exchange value, which precisely in its capacity as exchange value deceptively takes over the function of use value. The specific fetish character of music lies in this 'quid pro quo'.* (Adorno 1938:34).
>
> *The change in the function of music involves the basic conditions of the relation between art and society. The more inexorably the principal of exchange value destroys use values for human beings, the more deeply does exchange value disguise itself as the object of enjoyment* (Adorno 1938:34).

Now this amounts to a negation of what Marx specifically describes as a *relation* between *use value* and *exchange value* :

> *All commodities are non-use values for their owners, and use-values for their non-owners. Consequently, they must all change hands. But this change of hands is what constitutes their exchange, and the latter puts them in relation with each other as values, and realises them as values. Hence commodities must be realised as values before they can be realised as use values.* (Marx 1887:89).
>
> *...the use value of the commodity is a given presupposition - the material basis in which a specific economic relation* [i.e. *exchange value* in relation to other commodities] *presents itself.* (Marx 1858:881).

Thus in the ordinary *commodity*, according to Marx, not only do *use value* and *exchange value* come to form the two elements of a relation, but they can only be *realised as values* by means of exchange, that is, by means of a transaction. We simply cannot have *exchange value* without *use value.* A commodity without *advantage to mankind*, that is to say, a *useless* commodity cannot have a price. It is an impossible condition; we cannot find example of this other than the money commodity itself, which Marx defines as pure *exchange value.* But we have already seen that to describe opera as money or capital, is a metaphysical argument, one which cannot be given practical demonstration.

Adorno's negation of the *use-exchange value* relation is thus not only an attempt to debase the transactional process which underlies artworks such as opera, but constitutes an attempt to set into contradiction the two elements of a relation. That is to say, an attempt to break the *use-exchange value* relation in order to present *use value* and *exchange value* as part of a dialectical process. This simply confounds the very theory upon which Adorno's whole argument about the fetish aspect of music rests.

We thus reject the further attempt to debase the transactional process which underlies artworks such as opera, on the grounds that Adorno's doctrine of the fetish aspect of music attempts to set into contradiction, two elements (*use value* and *exchange value*) which operate as two terms of a relation.

a dependency of logic such that his whole argument amounts to a shibboleth. We summarize the stages in the formation of this shibboleth in Table 4-3 below:

	Stages in Adorno's argument	**Logic**
1	The process of commodification (of music) represents a process of *de-artification* (Paddison 1993) whereby *use value* is replaced by *exchange value* (Adorno 1938:34).	Cannot be true. We have demonstrated that it is not possible to commodify the live performance of music.
2	Commodified music creates passive music consumers (hence Adorno's *temple-slaves*) who share a *personality deformation called concreteness-of-thinking* and whose *anti-artistic attitude verges on sickness* (Adorno 1948:454).	Cannot be true. If music cannot be commodified, music consumers cannot be enslaved, since, according to Adorno, they are enslaved precisely by music in its commodified form.
3	Passive music consumers no longer know how to listen to music (hence Adorno's listener typologies; for which see Adorno 1962, Paddison 1993, and Dasilva et al. 1984)	Cannot be true, at least within Adorno's model. Since music consumers cannot be enslaved by music which cannot be commodified, they cannot be assumed to be passive; therefore to say that they no longer know how to listen to music because they are passive and enslaved is mere assertion.
4	Because music consumers no longer know how to listen to music their taste is *degenerate* (Adorno 1962:146).	This is the outcome of stages 1 - 3 and therefore of a priori thinking, of assertion upon assertion. Based in this way upon dependent judgement (which is untestable), rather than independent scientific observation (which is testable), this outcome represents a doctrinaire and therefore methodologically invalid approach to the question of *artistic value*.

Table 4-3 : Summary of stages in Adorno's commodification argument

4.3 Consequences of the commodification argument

Adorno and the degeneracy of public opinion

In his *Introduction to the sociology of music* (1962), Adorno devotes a whole chapter to the issue of public opinion or taste in music. In this chapter and in the context of his views about the commodification of music, Adorno sees what he terms *the democratic potential of public opinion* not, as we might expect, as a constructive or valid form of *artistic value* judgement, but, rather, as a form of *artistic value* judgement which *degenerates into the pressure of a* collective *retarded consciousness* (Adorno 1962:146). In Adorno's view, *the democratic potential of public opinion* serves only to *threaten artistic freedom* (Adorno 1962:146), therefore, rendering that democratic potential in effect, invalid.

Adorno's argument here follows two strands: a) that, according to Rousseau, it is both a general and persistent feature of democracy that collective opinion often misses the truth; and b) a variant of (a), that not all individuals are equally qualified to make valid or legitimate judgements about *artistic value* (so that collective opinion, because it contains a proportion of invalid judgement, again misses the truth). Whilst the first strand of Adorno's argument relies upon Rousseau and concerns the imperfectibility of the democratic principle in practice, the second strand is wholly based on Adorno's own ideas about the slave-like nature of those who consume and make judgements about commodified music.

Now these two strands are combined in Adorno's argument to form, in effect, a serious attack on what has been termed Aristotle's defence of *the wisdom of collective judgements* (translator's insertion, Aristotle Pol. 1281a39-1282b13): *that provided the mass of the people is not too slave-like, each individual will indeed be a worse judge than the experts, but collectively they will be better, or at any rate no worse* (Aristotle Pol. 1282a14). Now this we can equate to what Adorno terms *the democratic potential of public opinion* (ibid. Adorno

1962:146). If there is *truth* to be found (viz. Adorno's *demystification* of the music commodity), then according to Aristotle, it is more likely to be found via collective rather than individual judgement. However, Adorno effectively rejects the principle of *the wisdom of collective judgements* as it might pertain to public opinion about music: it does not accord with Adorno's view of public opinion in music as a form of *retarded consciousness*.

Let us look at the two strands of Adorno's argument more closely.

Adorno grounds this effective rejection of *the wisdom of collective judgements*, in the first instance, on the basis of his reading of Rousseau:

> *The problematics of public opinion showed in an aporia that was topical for* Rousseau *in particular : that the average value of individual opinions, which democracy cannot do without, frequently deviates from the truth of the thing itself. This has been exacerbated in the course of total social evolution, also in public opinion about music* (Adorno 1962:145).

Since Adorno gives us no further indication, we must assume that he is here basing his case upon the chapter in *The social contract* in which Rousseau discusses the particular difficulties of building a system of legislature (Rousseau 1762:75):

> *The people, of itself, always wants the good, but does not, of itself, always see it. The general will is always in the right, but the judgement grounding it is not always enlightened. The general will needs to be shown things as they are, and sometimes as they ought to appear, to be taught which path is the right one for it to follow, to be preserved from the seductiveness of particular wills, to have comparisons of times and places made for it, and be told of those remote and hidden dangers which counterbalance the attractions of visible, present advantages. Individuals can see the good and reject it; the public desires the good and cannot see it. All equally need guides. The one side must be obliged to shape their wills to their reason, the other must be taught the knowledge of what it wants. It is then that, from public enlightenment, comes the union of understanding and will in the social body; the parts are then in precise concordance, which results in the greater strength of the whole. This is why it is necessary to have a legislator* (Rousseau 1762:75).

This is a subtle passage, however, it is not a rejection but precisely an affirmation of *the wisdom of collective judgements* (Aristotle Pol. 1281a-1282b13). Rousseau never gives up his belief in the value of the general will. Indeed Rousseau sees the general will (what Adorno calls *the average value of individual opinions*) as that which *tends always to the conservation and wellbeing of the whole* (Rousseau 1755:7). Rousseau's text here is certainly no *aporia* or statement of doubt.

The logic of Rousseau's argument is clear. Since the people as a whole always wants the best for the whole (*general will*) but does not have full information (*enlightenment*), the case in question needs to be presented objectively: a) in order to avoid bias (the influence of *particular wills* or power-groups); and b) in order to encourage the long-term view (*dangers which counterbalance present advantages*). In this latter respect there is correspondence with the *merit good* argument which we discussed earlier (viz. the possibility of information asymmetries and undervaluation of goods and services by individuals because they cannot, individually, take account of the wider social benefits or externalities of art, and therefore require *guidance* or incentive e.g. information or subsidy).

According to Rousseau, then, by means of such objective presentation of the particular case in question, the general will can be brought to a point of informed decision-making (*precise concordance of understanding and will*).

In this way, no one individual or power-group can exert undue influence upon the process of law-making (the topic of Rousseau's discussion here). It is this last point which is critical: Rousseau is here discussing the special problem of how a system of legislature (a *whole object*) may be defined, whilst ensuring that the general will, and body politic (Rousseau 1762:73) remains undivided (*the whole people*).

> *...when the whole people makes a ruling for the whole people it is concerned with itself alone, and the relationship, if created, is between the whole object from one point of view and the whole object from another, the whole remaining undivided. Then the matter on which the ruling is made is general, as is the will that makes it. It is this act that I call a law.* (Rousseau 1762:74).

> *We can see also, since the law combines universality in its object with universality of will, that anything ordained by a man on his own account, whatever his position, is not a law* (Rousseau 1762:74).

We are dealing with a very special case here: the building of a society's very *conditions of association* (Rousseau 1762:75), not with a particular object or event such as an opera performance or with a particular school of composition. Thus, when Rousseau describes the judgement grounding the general will as *not always enlightened* (ibid. Rousseau) he does so in the context of the *large and difficult enterprise* (Rousseau 1762:75) which is faced by the whole people, in the very specific instance of building a system of legislation, precisely for the whole people. It is not sufficient, therefore, to portray the problem Rousseau discusses here as a general and persistent feature of democracy when Rousseau's discussion pertains to a specific and exceptional instance. This amounts to a distortion or misrepresentation of Rousseau's political theory.

Now, Adorno goes on to make a second effective attack on *the wisdom of collective judgements* and the constitutional principle that in a democracy *the mass of the people ought to be sovereign, rather than the best but few* (Aristotle Pol. 1281a39). This second attack can be understood as a denial of the individual's right to participate in democratic society i.e. on the individual's right to make legitimate *artistic value* judgements.

This might not at first seem obvious. Indeed Adorno purports to *defend the democratic potential of public opinion* in his reference to Habermas's study of *the intellectually emancipated bourgeois* or *notables* :

> *This element* [the notables] *materially qualifying* [possessing knowledge of art] *but at the same time restrictively élitist and thus undemocratic, has been lost by the concept of the public in modern democracies, with a balancing objective removal of the social inequalities to which that concept used 'sans gêne' to confess* (Adorno 1962:145).

Adorno here notes the evolution of democracy away from the direct and exclusive democracy of the classical model (exclusive because slaves as non-property holders and therefore non-citizens held no right to participate) and towards the representative, inclusive concept of democracy of modern society. Adorno seems, on the face of it, to celebrate the obsolescence of the property / citizenship qualification as a prerequisite of participation in what we have termed, the *artistic value* franchise (see chapter 1).

But Adorno's defence of democracy is by no means consistent:

> *Formally, the possibility of opportunity for everyone to hear music and to judge it is superior to the privilege of segregated circles* [such as the notables]. *It might lead beyond the narrowness of a taste where social narrowness was often aesthetically restrictive as well. In fact, however, that broadening, that extension of freedom of opinion and its use to people who under the circumstances can scarcely have an opinion, counteracts their material committment and ultimately undermines their chance to form an opinion at all* (Adorno 1962:145).

Whilst even Rousseau admits the imperfectibility of democracy (*there is no such thing as a true democracy*; Rousseau 1762:140), he does not go as far as to deny the legitimacy of individual opinion. Adorno, however, blames the very extension of what we have termed the *artistic value* franchise (*that extension of freedom of opinion*) for the practical imperfection of democracy.

Adorno seems to be saying that those who can *scarcely have an opinion* about music cannot legitimately do so because they do not possess the requisite knowledge about music. This makes knowledge about music effectively a property / citizenship qualification, so we return to exclusive democracy (a contradiction in terms in the context of modern political theory). Moreover, Adorno goes further so that even if individuals do possess a little property or knowledge (their *material committment*) this will still not suffice to allow them to participate in a legitimate way in what amounts to the *artistic value state.* Indeed, if we interpret Adorno aright, even a little knowledge (*material committment*) will be of no benefit to music consumers since it ultimately *undermines their chance to form valid opinion at all* (ibid. Adorno 1962).

Let us be clear, the greater the property qualification (i.e. the higher its threshold), the fewer the citizens (or smaller the *artistic value* franchise). Now, Aristotle defines citizens in the fullest sense as those who have *a share in the honours* (i.e. the status or privilege accorded by sharing in the offices of the state) (Aristotle Pol. 1278a34). In other words, *not* slaves. This is important, for it is by means of the enslavement concept, that Adorno is able to reject the principle of *the wisdom of collective judgements* in the first place. That is, Adorno believes that the mass of the people, the public which consumes commodified music, is indeed slave-like (viz. Adorno's *temple slaves*) and therefore Aristotle's logic will not apply.

Thus, by sleight of hand, Adorno whilst purporting to defend or profess faith in the democratic potential of public opinion, is in fact arguing for the existence of an oligarchic élite or sole *artistic value* legislator (such as himself as aesthetic theorist):

> *In order to discover which rules of society suit nations best, a mind of a superior kind would be required, able to see all human emotions, while feeling none; without relationship to our nature, but knowing it to its depths... a mind, in sum, which while preparing distant glory for itself in the fullness of time, could carry out its work in one century and enjoy its achievement in another. It is gods that are needed to give laws to men* (From the chapter on the rôle of the legislator, Rousseau 1762:76).

If, like Rousseau, Adorno were merely concerned to *guide* public opinion to help it arrive at a point of *enlightenment* for the common good (a kind of *merit good* argument) then the consequences of his commodification argument might be construed consistent with the principle of democracy. However, although Adorno's argument is couched in the language of democracy, what he advocates is really oligarchy or tyranny. Whilst referring to a knowledgeable élite as profoundly undemocratic in one paragraph, in the paragraph which follows he reveals a nostalgia for just such an exclusive, property-based constitution. Adorno has in effect merely replaced what he sees as the tyranny of commodified music with the tyranny of the *expert listener* (viz. Adorno 1938, 1962:5, Paddison 1993, Dasilva 1984:67). (For corollary development of this theme see Sessions 1976, Dahlhaus 1967a and 1970, and Copland 1952).

The idea of slavery and non-participation (non-citizenship) is central to the success of

Adorno's aesthetic programme. Without a body of enslaved consumers, Adorno's theory has no function: in order to liberate his *temple-slaves* Adorno must first enchain them. It is not even a question of élitism, it is a question of tyranny, of an *artistic value* fascism. Adorno replaces the tyranny of the commodity form with tyranny of another form: the tyranny of the aesthetician; of the *aesthetic value* legislator. This is a strategy consistent with fascism. It is therefore not a good reason why we should reject public opinion as a criterion of public subsidy decision-making:

> *Fascism's call for the regeneration of the national community through a heroic struggle against its alleged enemies and the forces undermining it involves the radical rejection of liberalism... The important proviso to this aspect of fascist movements is that, though they oppose parliamentary democracy and their policies would in practice inevitably lead to its destruction, they may well choose to operate tactically as democratic, electoral parties. Indeed, they may go to considerable lengths to camouflage the extent of their hostility to liberalism through euphemism and dishonesty, reserving their rhetoric of destruction of the 'system' and of revolution for the initiated* (Griffin 1995:4).

In the light of the above, it is not inconceivable that Adorno, as the author of an explicitly anti-fascist text, *The authoritarian personality* (1950) might not also in other aspects of his work, display a tendency towards a kind of aesthetic or *artistic value* fascism. Because of the ambiguous attitude adopted by the fascist thinker vis a vis *the democratic potential* (ibid. Adorno) it cannot be said that elements of fascist thinking are incommensurable with an anti-fascist stance.

Now, we in no way question Adorno's fight against the rise of German Nazism and his continued concern with the question of fascism after the Second World War[3], indeed that purely socio-political aspect of his writing is not our concern. We do, however, point to the correspondence between the above definitional aspect of fascism and the logical outcome of Adorno's modernist aesthetic programme, which, it is important to note, is intended as praxis (world-changing activity) and not as mere intellectual speculation (for background see Adorno 1963a, and Adorno and Horkheimer 1969). Indeed, it is hard to dismiss our conclusion entirely out of court given Adorno's continued insistence on a dialectical view of reality. If we adopt Adorno's dialectical world view, then we must admit of contradictions in everything, whether subject or object. Arguably, Adorno, has unwittingly invited us to draw the conclusion that his own aesthetic motives are themselves contradictory.

Artistic value and the value of valuelessness

In the context of the twentieth century, Adorno both attributes a function to music (saying what it seems to be for) and prescribes a function (saying what it ought to be for). It is in the contradiction which arises between these two perspectives about function or *use value* that the substance of Adorno's historical dialectical view of music lies. That is, between music's *ideological character* and its *cognitive character* (Paddison 1993:111); between music as *entertainment* and *effect* (the alluring guises which according to Adorno constitute its *fetish character*) and music's *truth* or social content (which, he says, is contained not within effect, but within the very structure of a musical work). Adorno wants us to understand each musical work as a complex of meaning in which is sedimented history and society (the social conditions of its production). This is the function or *use value* he prescribes; to miss this *cognitive character* of music would be, in Adorno's view, to be mistaken about music's *use value.* Interestingly, from the point of view of our transaction model (chapter 2), Adorno cannot separate *artistic value* and *financial value* in its sedimented form, since any reflection of the social conditions of a work's production, according to our transaction model, must reflect exchange relations i.e. transactions, or the trade of values made between parties in the environment (see again discussion of inseparability in chapter 2).

Now this leads us to a key and consistent theme within Adorno's commodification argument: the connection between autonomy and *artistic value* (what we shall term, the value of valuelessness). That is to say, the value which lies in music's ability to withdraw from the market and function, unhindered, as social critique. The idea is that by becoming unmarketable, by resisting the possibility of *ideological consumption*, music will lose its *exchange value* (its commodity form) and develop pure *use value* as social critique. By this means we are to be liberated from the *logic of the business world* and the *marketplace mentality* (Adorno 1948:5) and, if we are to understand Adorno aright, we are to be liberated entirely from our attachment to democratic market economy.

But there is a difficulty. Adorno uses the term autonomy in both a literal and a metaphorical sense (as confirmed by his student, Dahlhaus) to mean:

A) in its literal sense : music which is free from the market

Music is autonomous if it is free from the influence of a patron or commissioning body (Adorno 1948:21); that is, if it has been *freely conceived and executed with no influence on the part of a patron or purchaser as regards its content or external form* (Dahlhaus 1967b:109).

B) in its metaphorical sense : music as social critique

Music is autonomous if it functions not as entertainment but as critique, thereby becoming *incommensurable* with social reality i.e. unmarketable, non-commodified[4] and devoid of *exchange value* (Adorno 1948:113); so that as critique, it thus points out the ills of society rather than *sublimating those ills into a deceptive humanitarianism which would pretend that humanitarianism had already been achieved in the present* (Adorno 1948:131).

These, in effect, are Adorno's conditions for autonomy. It is not clear, however, how Adorno's second condition, the one most consistently stressed in his work, is to be achieved. How is music to function in the full sense of condition B (music as critique, pure *use value*) when, in a money economy, condition A (freedom from the market, freedom from *exchange value*) cannot be met. An artwork, such as an opera, cannot be *freely conceived and executed* unless in the context of a feudal society. As we discussed earlier, every action an individual makes (such as writing an opera) even where money does not exchange hands, involves an opportunity cost. To the composer, this might be the opportunity cost of not undertaking a potentially lucrative filmscore commission, for instance. Even if the composer is of independent means, even if he never *worked*, there can be no complete freedom, no complete autonomy from the market (either he must enjoy inherited capital or social welfare). Here we return to the fact that *artistic value* and *financial value* are inseparable (see again section 1.1 and chapter 2).

Even if we thought that Adorno's concept of autonomy was intended to apply to the consumption of works, rather than the conditions of their production, we would encounter difficulties. The only musical work which could possibly achieve autonomy in both literal and metaphorical sense (in the context of consumption relations) is what we may term the *score-in-the-drawer.* That is, a score which has been written by the composer for the composer (or an ideal audience) and which has not been commissioned (and not therefore purchased) and which has not been performed, or in any way exposed to the market (i.e. has no *exchange value*). But the value in valuelessness of the score will remain locked in the drawer, as it were; it must remain unheard to remain autonomous.

This is interesting because Adorno argues that *music which has not been heard falls into empty space like an impotent bullet* (Adorno 1948:133). Now, this is only true if, like Rodolfo's manuscript in Puccini's *La Bohème*, the score (our *score-in-the-drawer*) is burnt the moment it is completed, so that it can never participate in the market (e.g. be taken from the drawer and sold, thus losing its autonomy) at any time in the future. This makes Adorno's claim that modern music seeks *absolute oblivion as its goal*, that it is the *surviving message of despair from the shipwrecked* (Adorno 1948:133) problematic precisely because the message may be *heard*; which means exposure to the market in the future. Indeed, the score can only realise its value in valuelessness, *for us*, through some future *use value* (e.g. first performance in a retrospective festival of twentieth century music) which means exposure to the market (realisation as *exchange value*) since its performance must somehow be funded. Either the composer, his next of kin, or some future publisher will retain the IPR (Intellectual Property Rights) on the work.

Thus, in reality, because scores do hold an asset value and are therefore not autonomous, Adorno's *last message of despair from the shipwrecked* represents, ironically, a copyright symbol (a symbol of asset value, and therefore of potential *use value*) stamped upon the *score-in-the-drawer*.

So music may come to be valued as music which had no value, which was thought valueless within its original market setting, and whose cognitive value lies in the appreciation of this very valuelessness. However, if we did not perceive this absence of value, and found instead an alternative *use value* (function), forgetting to exercise our cognitive faculties in appreciation of the works, Adorno would accuse us of *ideological consumption* (e.g. merely consuming it for entertainment, for curiosity value, for instance, or worse, using it as a filmscore). So we are faced with a conundrum: there seems to be no way into autonomy, and neither any way out.

In setting out the premises of his commodification argument, then, Adorno leaves a contradiction unresolved: if patrons and purchasers are indeed so restricting, if public bodies and sponsors commission works only out of a sense of *cultural obligation* (this is Adorno's rather weak explanation of institutional commissioning; see Adorno 1948:21), and if any participation in the market destroys music's *artistic value*, how then does music function as critique, how does the modernist programme begin in the context of a money economy? Adorno makes it clear his distaste for composers such as Hindemith and Britten who have, in his terms, sold out to the market by permitting *conciliation to the listener*, eliminating from their work everything which is *musically uncomfortable*, and merely pretending at *modernity* (Adorno 1948:6). It seems then that Adorno permits no gentle transition to autonomy; if autonomy is to be understood as a necessary condition of *artistic value*, then it would appear that only complete (literal and metaphorical) autonomy will suffice. This is ironic since, arguably, Britten's *Albert Herring* could be said to function, in the best Mozartian tradition, as social critique (here, of the English class system); and yet Adorno would have it that Britten's work is not sufficiently autonomous for this to be achieved, but that it suffers an *immaturity which masks as enlightenment* (Adorno 1948:6) i.e. it will not truly enlighten us about our own oppression (for exposition of this theme see Marcuse 1968). The point here is that perception of value is linked to real individuals and groups within the environment: some of us will perceive social critique in *Herring*, some of us will not; some of us will agree with Adorno's verdict of Adorno, some of us will not. What matters is the fact that we come face to face with an aesthetic theory which attempts to alter our perception of *artistic value* by, in effect, claiming to enlighten us about the nature of the relationship between *artistic value* and *financial value*; and the concepts of autonomy and commodifiability are key to this.

We have to question, therefore, the value of Adorno's usage of economic theory. By introducing the concept of autonomy or non-commodification (with its implicit link to *exchange value*), yet not fully working it through, Adorno at once reveals and undermines the normative, propagandistic nature of his project. Adorno presents us, then, with an aesthetic theory which is strong in its surface appearance (because it employs powerful economic concepts), but which, logically, is less than coherent.

Modernism, postmodernism, and market failure

What then are the consequences of the commodification argument in the context of our study? Briefly, we may summarize and contrast the respective aesthetic strategies of modernism and postmodernism as follows:

> *a) The modernist aesthetic strategy* : Requires music's complete autonomy (literal and metaphorical withdrawal from the market) in order that it rid itself entirely of *exchange value* (its commodity status). Once rendered valueless in this way, music is to cultivate itself as pure *use value* (its function as social critique). But because

it must cultivate autonomy by ridding itself of *exchange value* (i.e. cultivate its own non-marketability) music's fate is to atrophy in the name of its cause (i.e. fail to realise its *use value* as critique because it is unacceptable to the market; see also Adorno 1970)

Consequences : The only way to create *artistic value* is to (attempt to) cultivate the separability of *artistic value* and *financial value.*

b) The postmodernist aesthetic strategy : Requires that music accept the impossibility of autonomy i.e. accept the inevitability of its absorption into the market, and therefore its commodification. By accepting its fate as a commodity, music may exploit, through irony, the contradictions of its own market existence. Music's *use value* as critique must therefore be posited on a pessimistic acceptance of its inevitable realisation through *exchange value* (viz Marx). (See also Bourdieu 1979 and Lyotard 1985).

Consequences : The only way to create *artistic value* is to accept and exploit the inseparability of *artistic value* and *financial value.*

Modernism and postmodernism, then, rely to a very great extent upon the idea of the commodifiability of music; both cultivate a profound distaste for the market.

From our point of view, however, both modernism and postmodernism can be understood as presenting classic *market failure* arguments (see again chapter 3). Both rely upon the idea that consumers undervalue non-commodified music, music which serves as critique, either through lack of information (i.e. ignorance of their own *oppression*, or poor listening skills), or through inability to take account of the wider social benefits or externalities resulting from consumption (i.e. failure to see that they may liberate themselves and their fellow citizens from the *inhumanity* of market society). Yet neither advocates state intervention, which to the economist, is the logical solution to *market* *failure*. Adornian modernism seems to *seek market failure*: the idea of *opera for all*, if not complete anathema to the modernist, at the very least presents him with grave difficulties; whereas to the postmodernist it presents opportunities for exploitation. An interesting portent of the postmodernist approach to what we have here identified as a *market failure* problem, is seen in Adorno's critique of Stravinsky:

> *His compositions are pieced together out of scraps of commercial goods* [e.g. jazz] *just as many pictures or sculptures of the same time were composed of hair, razor blades, and tinfoil. This defines its difference in 'niveau' from commercial trash. At the same time, his jazz pastiches appear to absorb the threatening attraction of that which has been abandoned to the masses, enchaining the danger thereof by giving in to it. Compared to these practices, every other interest of composers in jazz was a modest effort to gain an audience - a simple matter of selling-out. Stravinsky, however, thoroughly ritualized the selling-out itself, indeed even the relationship to consumer goods. He performs a 'danse macabre' around its fetish character* (Adorno 1948:171).

An interesting parallel here is Kramer's description of Ravel as a *proto-postmodernist*; as a composer in whom *the nexus of music, consumerism, and exoticism comes close to being a deliberate aesthetic programme* (Kramer 1995:205). Kramer sees Ravel's *Daphnis and Chloe*, in particular, as *beautiful because its beauty has a job to do.* By effecting a *translation of conspicuous consumption from the sphere of commerce to the sphere of art* (ibid Kramer 1995:204), by *commodifying... fin-de siècle aestheticism*, and by embodying the *cultural supremacy by which Europe subsumes and organises the non-European world*, Kramer claims that Ravel's *Daphnis and Chloe* effectively re-enacts the *technical and administrative mastery that brought the exotic to Europe in the first place* (Kramer 1995:212). Kramer's claim is, in effect, that Ravel was fully conscious of the *situatedness* of his art within a world of political and economic relations, and moreover, that his music effectively exploits (Kramer prefers the term *encapsulates*) the contradictions of music's existence within the *dream world of mass consumption* (ibid Kramer 1995:225).

From our perspective, then, the important point to note is that both modernist and postmodernist aesthetic strategies rely upon crude models of the economic environment, and a misuse of the concepts of classical economics (viz *use value* and *exchange value*). Both cultivate an idealist view of *artistic value*, and both assume the existence of one homogenous mass market; a single monstrous sea of exchange relations, in which music either participates or it does not. The central idea common to both is that *artistic value* cannot be maximized in a market context: an idea which leaves the artistic achievements of Glyndebourne Festival Opera (an almost purely private sector market enterprise) largely unexplained (see chapter 7). Indeed, both modernism and postmodernism would ask us to disregard Glyndebourne as another, perhaps ironic, example of *selling-out*; of the *crafty naïveté of the culture industry* which has *adjusted to mass culture by means of calculated feeble-mindedness* (Adorno 1948:6,16).

Interestingly, by their very nature, *market failure* arguments tend also to assume the existence of mass markets i.e. markets in which products or services are substitutable, and in which need (demand, if the market did not fail) is evenly spread throughout the population. Primary healthcare provides an example here (General Practitioners are technically substitutable, and need for their services is universal). But whilst this mass market concept is true at a generic level, in reality the market for healthcare is highly segmented. Product ranges in the OTC pharmaceuticals[5] market (though not itself a *failed* market) are, for instance, differentiated according to the perceived needs of specific groups including: travellers, nursing mothers, the elderly, and various lifestyle groups such as sports enthusiasts. That is, innovation and value is predicated on individual segments; on real individuals and groups within society. Now, hypothetically, the same may be true of opera (i.e. the market for live opera may well be segmentable), but models pertaining to value in opera which assume the existence of a mass market, concern themselves only with the possibility of opera and indeed, the arts as a whole, as a generic service (see for instance Hill et al. 1995). This leads us straight back to the idea of commodification in the Adornian sense of standardized goods and mass consumption.

Our real point, then, is that modernism and postmodernism do not relate value to real individuals and groups within the environment (see again chapter 2). Rather, they posit an idealized or abstracted concept of the consumer as an enslaved or oppressed individual who is also a poor judge of his or her own welfare (in the widest sense). But in doing so, these aesthetic programmes overlook the possibility of future alternative *use values* for their works. Modernism, in its cultivation of what we have termed the value of valueless works (valueless because they are non-marketable and therefore devoid of *exchange value*) assumes that consumer tastes and preferences are fixed. But we may well come to value modernist works precisely because of their former perceived valuelessness. Our point, here, is that both modernist and postmodernist works may enjoy potential market segments of their own e.g. other composers and music professionals, or members of, for instance, the Scottish Opera audience who prefer new and experimental productions (see chapter 7). This meaning that modernist and postmodernist works themselves may not be participating in (or resisting) a mass market at all. A case in point is the performance of Adorno's own lieder at a recent musicology conference in the UK[6].

Now this demonstrates again that *artistic value* is a function of perception and cannot be separated from real individuals and groups within the environment (see chapter 2). Turned around, this suggests that an artform is likely to flourish when, and only when, it is exposed to those market segments in which its value is perceived. Moreover, assuming some degree of consumer sovereignty within these hypothetical segments, it suggests the possibility of substantive artistic innovation. That is, formal innovation in the artform itself as producers seek to differentiate their services and predicate value around distinct market segments (see chapter 8).

However, our main point is this: is it sufficient for cultural economists to leave the question of *artistic value* to experts in aesthetics; to treat *artistic value* as an exogenous variable? Modernism and postmodernism have already demonstrated that aesthetic theory is capable of developing apparently sophisticated and therefore persuasive programmes on the basis of the misuse and distortion of economic theory: a point which has also been noted by Connerton in the context of a study of Frankfurt School

Critical Theory:

> *The 'basic economic structure' which is appealed to, in the programmatic statement, as the ground for the unchanging substance of the theory, is never the object of a sophisticated and detailed inquiry by those whose work is supposedly justified by that programmatic statement. Presumably any differentiated study of that basic economic structure, understood in Marxist categories, would have to proceed by showing how specifically the labour theory of value could be applied in explaining the operation of that economic structure under contemporary conditions. But although the main exponents of critical theory continued to cite the categories of the labour theory of value* [i.e. *exchange value, use value*], *they did not subject those categories to sustained explanation as economic categories, and they sometimes failed even to name them explicitly. Thus it becomes difficult to avoid the growing suspicion that by constantly drawing attention to its own historicity, critical theory is loosening rather than reinforcing its links with Marx's materialist critique* (Connerton 1980:40).

Now this underlines, again, the point we made in chapter 1: that there is urgent need for inter-party communication and for an adequate political economy of opera. There seems little purpose in discussing opera, or indeed the arts as a whole, in terms of potential positive externalities (its wider social benefits), for instance, when fundamental disagreement about the consequences of the inseparability of *artistic value* and *financial value* may pertain. Even if cultural economists and public policy experts were to discover strong evidence of positive externalities associated with opera e.g. if real evidence of *social regeneration*, or *neighbourhood renewal* (see chapters 1 and 2) were found, the aesthetic theorist of modernist or postmodernist persuasion might seek to subvert any conclusions which may be drawn - presenting possible benefits as, in effect, negative externalities, as mere features of oppression and the total domination of society by exchange relations.

Ultimately, our inter-party communication problem comes back to the question of the connection between human flourishing and the flourishing of art. Indeed, is the maximization of consumers' welfare ever commensurable with the maximization of *artistic value*? It is difficult to see how cultural economics and aesthetic theory can disregard this question in the face of the inseparability of *artistic value* and *financial value*.

4.4 Summary

We showed that Adorno's commodification argument involves the creation of a shibboleth, briefly: that the process of commodification represents a process of artistic devaluation, and that it creates passive music consumers, and that passive consumers no longer know how to listen to music, and that because they no longer know, their taste is degenerate.

We also showed that opera conforms to the definitional characteristics of the *service* (that it is neither a product nor a *commodity*). In addition, we introduced and discussed the concept of *intangibility*, showing the importance of perception in the context of *artistic value* (we equated *artistic value* with *perceived use value*).

Most importantly, we underlined the need for informed inter-party debate by discussing the consequences of the commodification argument in the context of modernism and postmodernism. Specifically, we showed that whilst cultural economics tends to treat *artistic value* as exogenous, aesthetic theory has proved itself interested, in a propagandistic sense, in the value of economic theory as a justification for attempting to alter our perception of *artistic value*. The problem we demonstrated, was that the application of economic theory in this context, was less than logically coherent.

5. METHODOLOGY

5.1 Introduction

We have established the transactional nature of opera: that the production of live opera occurs as the result of transactions between effective buyers and sellers of *artistic value* (e.g. public funders and opera company, sponsors and opera company, audiences and opera company etc) and that because these transactions occur, today, within the context of a money economy, that *artistic value* and *financial value* therefore operate in an inseparable fashion.

This means that any meaningful discussion of value in opera must be conducted with reference to *artistic value* and *financial value*, and to the interdependent relationship which pertains between them.

In the theory chapters of this study we constructed a simple model to describe the transformation of *financial value* and *artistic value* inputs into theoretically possible *financial value* and *artistic value* outputs. This allowed us to demonstrate the inseparable nature of *financial value* and *artistic value*. However, since we cannot give a full description of the transformation process itself, which is highly complex, meaningful investigation of value in opera must be conducted by other means.

From the aggregate data which results from this activity, we go on to develop a taxonomy of opera which explains, in qualitative terms, the differences between opera companies resulting from their description in purely quantitative terms. From the taxonomy we can discover what kinds of transactional model are at work in the opera sector. In addition, we can observe the reaction of the individual opera company to its environment over time.

5.2 Aims and methodology

Aims

Since we cannot give a full description of the transformation process by which means *artistic value* and *financial value* inputs are transformed by the opera company into *artistic value* and *financial value* outputs (this being a highly complex process) a parametric study was conducted in order to yield a rigourous partial description. That is, whilst we cannot measure or record the transformation process itself (a process internal to the company and therefore only partially observable) we can observe the *financial value* inputs and outputs (in the form of published accounts). We can also observe the delivery of *artistic value* (in the form of performance data) which is important since it provides the primary rationale for funding opera.

The purpose of the study was to measure changes in those parameters which were observable and reliable, and would therefore tell us more about the transformation process. By this means, the study yielded objective measures of transformation (introduced below). Study of changes in these measures over time revealed the effect of policy decisions and the reaction of individual opera companies to the environment (description of the environment is discussed below). This enabled observation not only of changes within one company, but between companies themselves. We therefore selected those parameters which were the most reliable and consistent across the spread of companies in our sample. The parameters thus elected (turnover in year, employees in year, and performances in year) provided quantitative measures.

Whilst it is possible to use qualitative parameters in a parametric study, there are no reliable qualitative parameters which can be used in the current context. Audience survey data and expert opinion about *artistic value*, for instance, is subjective. Also, although companies can be categorised according to whether or not they own a theatre or possess an inhouse orchestra, these qualitative parameters have no agreed significance in themselves. Although evidence suggests that an establishment model is preferred by companies (i.e. ownership of venue and or workshops), it is difficult to extract meaning from this in isolation, especially in the context of a small sample. Another possible qualitative parameter is repertoire choice or mix, but classification of such is again highly subjective (e.g. repertoire which is popular in one context or market, may not be so in another). The potential here is to argue over exceptions rather than the norm.

However, all of these qualitative parameters carry *financial value* implications and it is these that we must examine if we are to identify the constraints which hamper free *artistic value* choice in the opera production process. These constraints, or limits, are indeed more informative than the *artistic value* choices themselves since, depending on how tightly they act, they may compel a degree of *artistic value* homogeneity across companies. Indeed, because no real examination of these *financial value* constraints has been made, it is entirely possible that there are alternative operational models or *financial value - artistic value* mixes which have not been considered by public funders or by the opera community itself.

Lastly, from observation of similarities and differences in the resultant aggregate data, certain groupings of companies emerged. This suggested the development of a taxonomy by which means the qualitative similarities and differences between companies, resulting from their description in purely quantitative terms, could be expressed.

One further and important aim was to test the utility of the principal raw data sources used to construct the taxonomy (the published annual accounts and reports) as a mechanism for public sector body accountability (see chapter 2).

Methodology

Work was carried out in two phases. An initial period of primary research was conducted at Scottish Opera. The purpose of this work was, firstly, to survey available internal data pertaining to the financial management and marketing of the company; and secondly, to gain an insight into the administrative function of a major subsidized opera company. Whilst access was granted to available archives, it was discovered that much material had been lost with the departure of previous administrative staff. Archive material which did remain was of a random nature, uncatalogued and difficult to locate. Nevertheless, an insight into budgeting practice and other internal administrative workings was gained.

For phase two, the main part of this study, the published financial statements (annual reports and accounts) of seven opera companies (including those of Scottish Opera from 1970) were obtained from Companies House. By employing this source of secondary data it was possible to make objective comparison between companies and to examine issues of accountability because: a) all observations would be made using only data available in the public domain; and b) the filing of annual accounts at Companies House provides the only mandatory mechanism of accountability which permits not only intercompany comparison, but comparison of publicly subsidized companies against private sector practice.

Reliability of data : Although filing of annual financial statements at Companies House is mandatory for all registered companies, legislation allows for considerable variation in reporting formats. However, all annual accounts must be prepared by independent professionals acting as auditors. It is the duty of auditors to check compliance against current legislation for financial probity. Auditors work by a system of accounting standards such as SSAPs (Statement of Standard Accounting Practice) and SORPs (Standard of Reporting Practice), and the various Companies Acts (e.g. Companies Act 1985), and Charities Commission codes of practice regarding corporate governance (e.g. Cadbury Commission). Available data from Companies House reflects the fact that filing of full income and expenditure account data has only been required since the mid 1970s.

Construction of sample frame : The sample frame of seven opera companies comprises : a) main representatives of the UK subsidized opera sector (Royal Opera House - Covent Garden, English National Opera, Welsh National Opera, Scottish Opera, and Opera North), hereafter referred to as ROH, ENO, WNO, SO, and ON respectively; b) a comparator, largely private sector operation (Glyndebourne Productions, comprising two companies - Glyndebourne Festival Opera plus Glyndebourne Touring Opera), hereafter referred to as GP or GFO+GTO; c) a comparator, small company (Opera Restor'd), hereafter referred to as OR. Companies which could not be included in the sample frame were : English Touring Opera (short data run), Opera East (in liquidation), Travelling Opera (in liquidation), and Raymond Gubbay Ltd (non-utilisable reporting format - i.e. opera production activity non-separable from general concert promotion activity).

Selection of taxonomy parameters : Three parameters were used to construct the taxonomy : 1) total performances in year; 2) total turnover in year; and 3) total employees in year. In each case, the published financial reports filed at Companies House provided the data source. Where performance data was not stated, this was computed from *Opera* magazine (OC 1972-96) which provides the primary listing vehicle in the UK. These parameters were then used to provide two key ratios : a) turnover per performance (financial intensity); and b) employees per performance (labour intensity). In the absence of sufficient data, turnover per performance was used as a proxy measure of expenditure, since in a closed non-profit organisation, in the long-run, turnover generally follows expenditure levels closely. Employee figures are stated as per the published accounts and therefore represent average full-time equivalents (AVG FTE). In order to eliminate the effects of inflation, turnover was expressed in constant prices. The reasoning behind the choice of these parameters is discussed in more detail in section 5.2.

Ensuring equivalence of turnover data : In order to ensure that comparison of companies was carried out on an equivalent basis, turnover figures, wherever possible, were computed from first principles. That is to say, individual income items were traced from the income and expenditure account, the balance sheet (where required), the report of the board of directors (or equivalent), and the notes to the accounts. Note, the stated total income figure or turnover figure in the accounts (whichever is reported) cannot be relied upon because of intercompany and intracompany (year on year) variation in reporting format. Typical variations include : a) treatment of income as exceptional or below-the-line i.e. stated after the current surplus / deficit calculation; b) change of aggregation basis without explanation in the notes section of the accounts e.g. a turnover figure might include grants in one year but not the next; c) change of reporting of items between gross basis and net contribution basis; d) non-consolidation or the option not to report income generated by subsidiary companies where the directors have opted not to provide full data e.g. WNO (Services) 1987-88. Turnover calculations for all sample frame companies are presented in Appendices 7-1 to 7-14.

Correction for allowable activity : In order to ensure the meaningful comparison of companies with different operational bases, certain corrections to performance, turnover and employees data were required. Allowable activity was defined as : all UK mainscale opera performances. In the case of ROH, however, which operates a group structure (comprising Royal Opera, Royal Ballet and Sadlers Wells Royal Ballet / Birmingham Royal Ballet until 1997, hereafter referred to as: RO, RB and SWRB/BRB), it was necessary to include as allowable activity, RB performances given at the home venue (Covent Garden). Due to the complex nature of the ROH group operation and because of certain economies of scale (e.g. a house orchestra shared between two of the companies) it was neither possible nor meaningful to subtract out all RB income from the turnover calculation. A summary table of corrections for allowable activity is given in Appendix 7-3 and details of the corrections to ROH turnover can be seen in Appendix 7-4.

Description of the environment: Quantitative description of the environment was carried out using standard published macroeconomic data for the UK. Descriptors were chosen to reflect those factors in the environment most likely to have an impact on the opera sector. These indicators, which are introduced below, were: gross domestic product or GDP; annual rate of inflation; personal saving ratio and index of real personal disposable income; unemployment rate; the Sterling exchange rate against the US Dollar; and central government expenditure on recreational and cultural affairs.

5.3 Context setting : description of the environment

Interpretation of the results of the parametric study need to be set in context. Brief description of the environment in gross terms, using standard macroeconomic data is sufficient. The description below therefore does not present a comprehensive economic history of the UK. Rather, the aim is to develop an outline chronology of significant political and economic events and the consequences of those events. Our primary interest is in the factors in the environment which may affect demand for opera (e.g. purchasing power and consumer behaviour) and funding (e.g. trade cycles, inflation rate, and factor import costs).

The description has two parts: presentation of macroeconomic data followed by a brief chronology of environment events.

1) Macroeconomic data

The following five Figures show the behaviour of the environment in terms of standard macroeconomic data : gross domestic product or GDP (a general indicator of whole economy performance, where increase represents growth in the economy); annual inflation rate; unemployment rate (as a measure of recessionary cycles in the wider economy); personal saving ratio and disposable income index (indicating in crude terms, consumer behaviour as willingness to bear debt, and the theoretical purchasing power, or ability of consumers to spend on non-essential services such as opera); the Sterling-Dollar exchange rate (which, since the US Dollar is a favoured currency for trading purposes, affects not only the underlying strength or weakness of the economy via export-import performance, but affects, also, the cost curve of the individual opera company which may be purchasing or performing overseas e.g. where a weakening pound increases import costs for those opera companies sourcing overseas or electing to pay artists fees in US Dollars); and central government expenditure on recreational and cultural affairs (a crude indicator of cultural spending, since sport and leisure spending is included, giving an indication of changing priorities and opportunity cost decisions). Figures are discussed in the chronology.

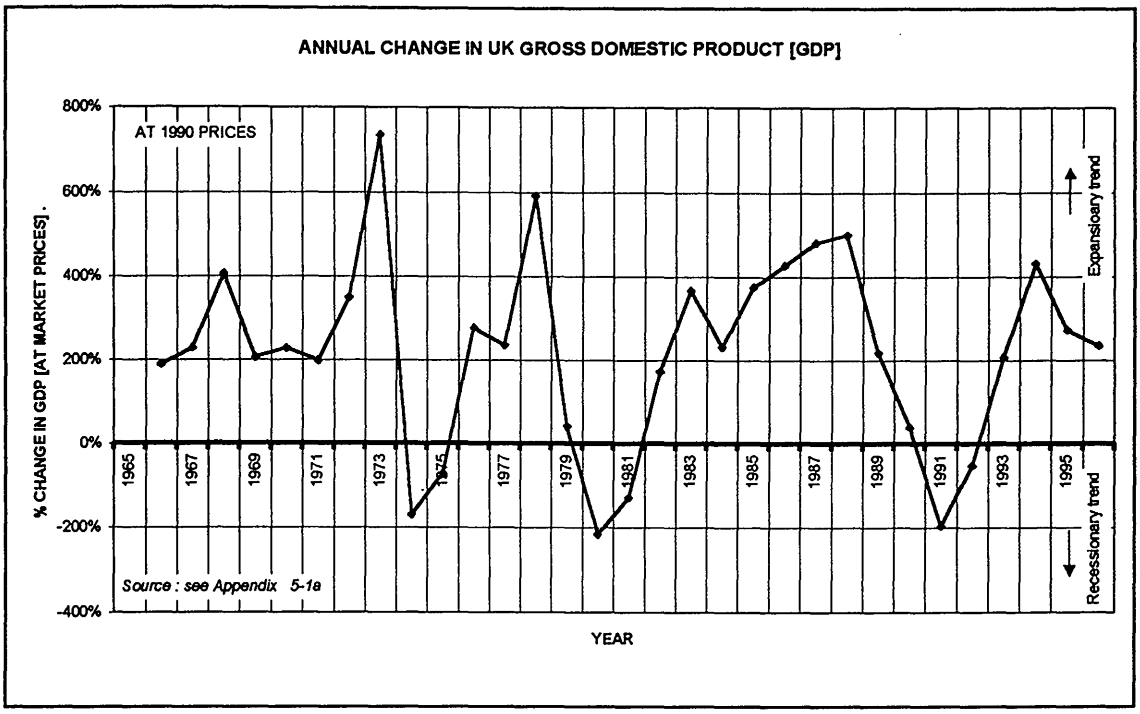


Figure 5-1 : Annual change in UK GDP

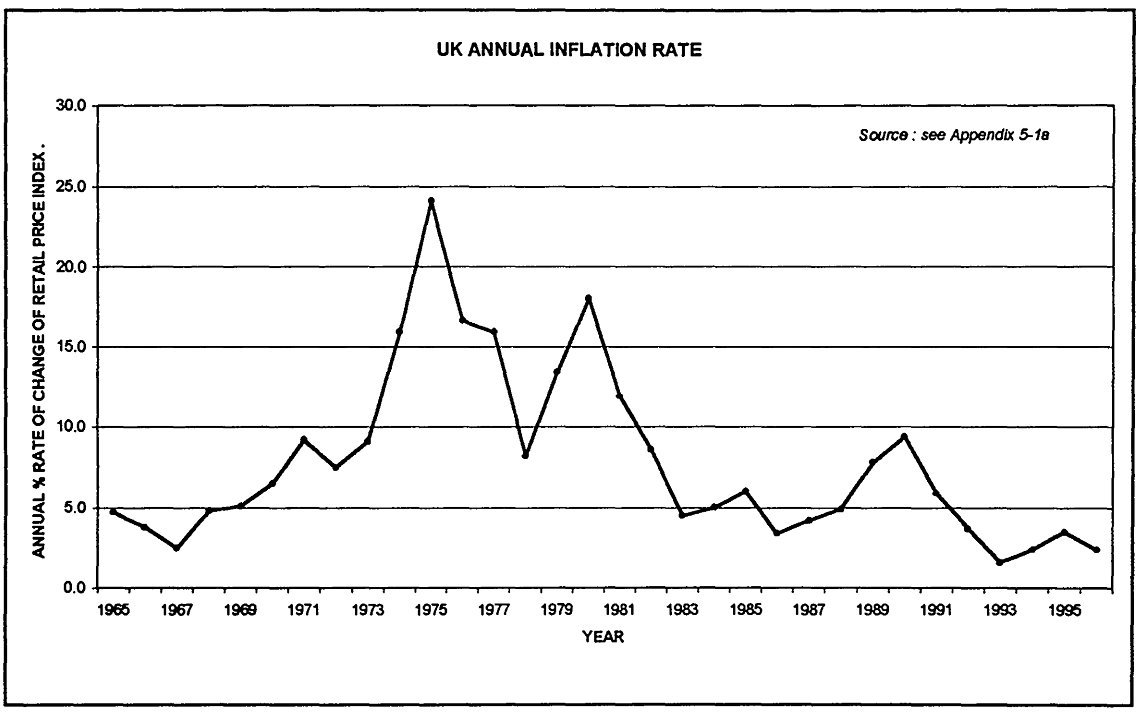


Figure 5-2 : UK annual inflation rate

Figure 5-3 : UK unemployment rate

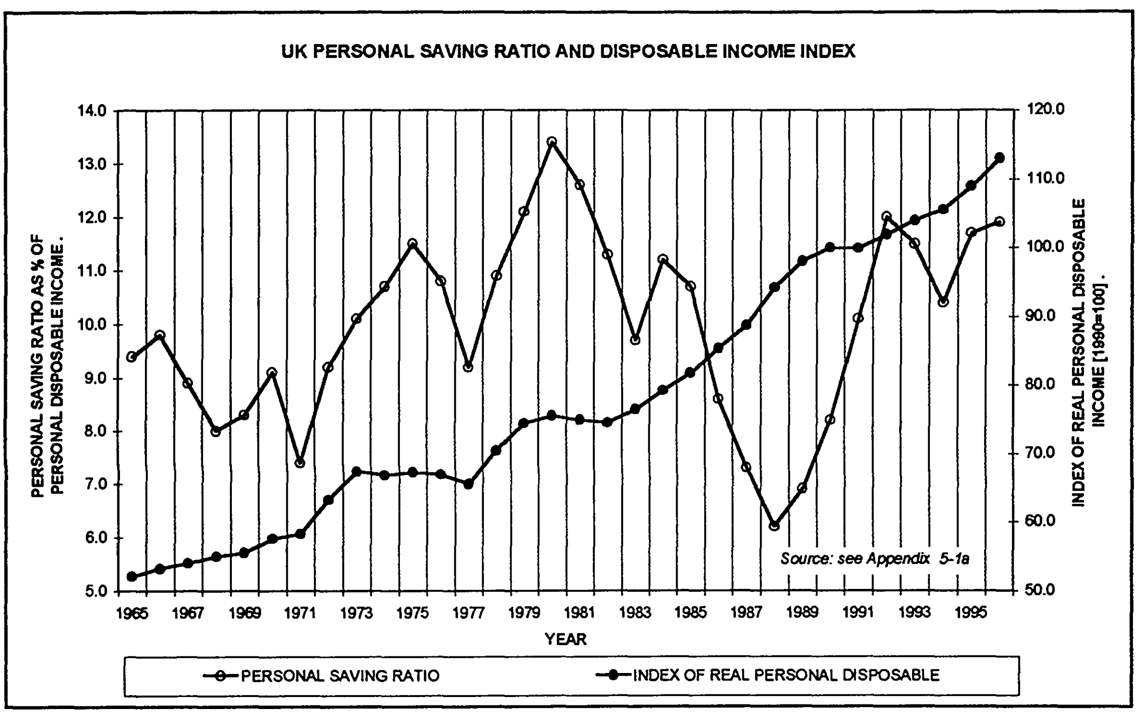


Figure 5-4 : UK personal saving ratio and disposable income index

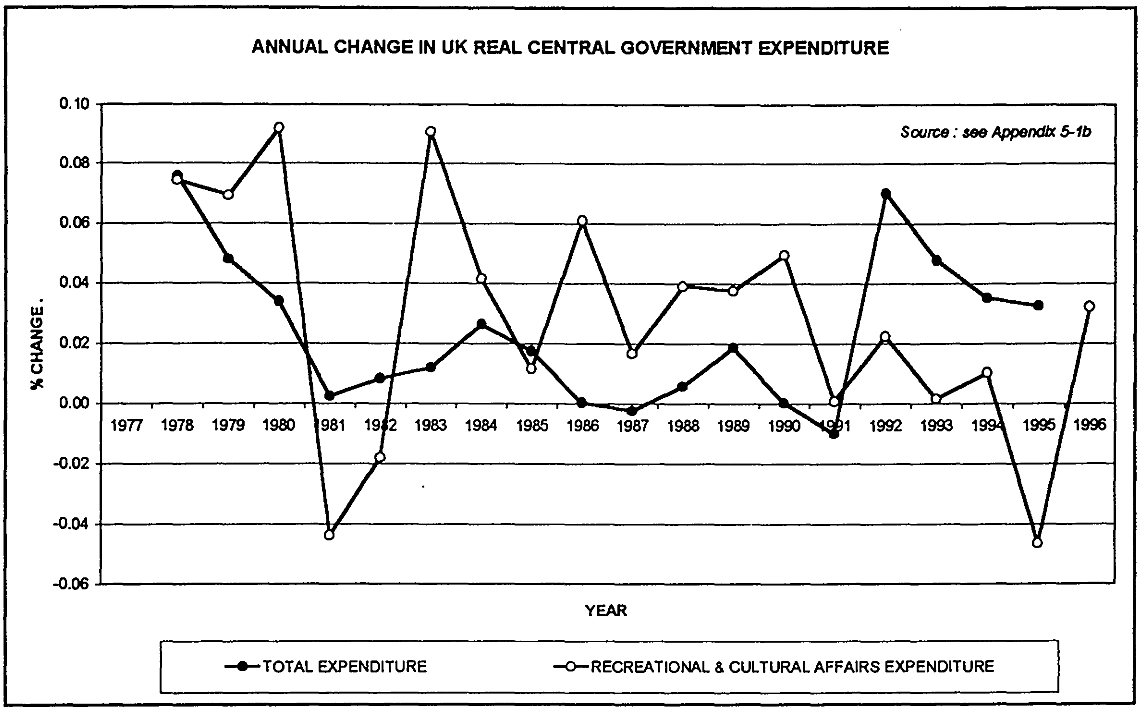


Figure 5-5 : *UK central government expenditure*

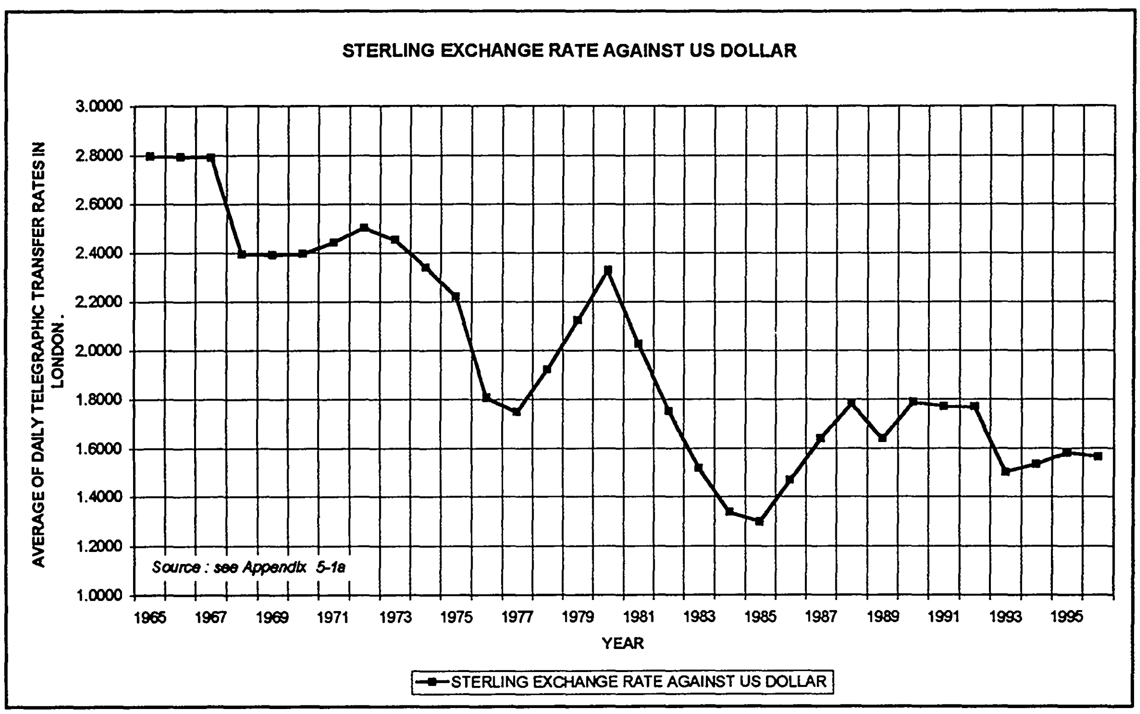


Figure 5-6 : *Sterling exchange rate against the US Dollar*

2) Chronology of events

■ **1964-70 : The first Wilson years [Labour]** [Oct-64 to Jun-70]

1965 *Prices and Incomes Board established.* Incomes policy measures are introduced shortly after establishment of the Board e.g. statutory prices and incomes standstill in 1966 (Butler and Butler 1986:376). These measures aim to limit price and wage increases as a way of controlling inflation. As a result consumers' real disposable income grows relatively slowly (Figure 5-4).

1966 *Sterling crisis.* Loss of confidence in the pound leads to an increase in the cost of borrowing, to tax increases, and to credit restraints (Butler and Butler 1986:376). In order to obtain greater exchange rate stability, the pound is devalued from US$2:80 to US$2:40 in 1967 (Figure 5-6). The cost of imports to the UK thus show an immediate and significant rise.

1968 *Deflationary budget.* The Labour government achieves a tightening of fiscal policy via government expenditure cuts. Its aim is to curb domestic demand and improve the Balance of Payments (see West 1987). The reduction in aggregate demand affects business confidence, a downturn is experienced, and economic growth, as measured by GDP, is reversed (Figure 5-1).

■ **1970-74 : The Heath years [Conservative]** [Jun-70 to Mar-74]

1971 *Dollar-gold convertibility ends.* The ending of convertibility brings the Bretton-Woods era to a close (see West 1987). The pound is floated and begins to depreciate against the dollar. This further raises the cost of imported goods and services to the UK.

1972 *Prices Commission and Pay Board established.* A statutory pay freeze is introduced

(1972-73) as part of an inflation control programme (incomes policy). Whilst the economy is growing (Figure 5-1) inflation is showing sings of accelerating (Figure 5-2). Since consumers' real disposable income is more than keeping apace with this accelerating inflation (Figure 5-4) the economy shows signs of imbalance.

1973 *Introduction of VAT.* The UK joins the EEC (European Economic Community) and the Value Added Tax system (an indirect tax system) is introduced in accordance with membership criteria. In the UK, VAT replaces selective employment tax and purchase tax, causing a major discontinuity in the tax system as producers adapt to new requirements.

1973 *Outbreak of Middle East War and first oil shock.* Due to disruption of supplies and the operation of the OPEC (Organisation of Petroleum Exporting Countries) cartel, oil prices quadruple (West 1987:326). UK producer costs increase and a sharp acceleration in the annual rate of inflation results (Figure 5-2). The shock to the economy begins a period of recession which is spurred, in addition, by the Miners' overtime ban and industry 3-day week: GDP falls dramatically (Figure 5-1). The unemployment rate rises (Figure 5-3) and consumers' real disposable income begins to fall (Figure 5-4). Individuals retiring during the Heath years experience an immediate and significant erosion of the purchasing power of their savings.

- **1974-76 : The second Wilson years [Labour]** [Mar-74 to Apr-76]

1975 *First landing of North Sea Oil.* This benefits the Balance of Payments as investment in the new oil industry begins. GDP is boosted in a relatively small but sustained way as production increases (see West 1987).

1975 *Government White Paper: 'The attack on inflation'.* This introduces a universal pay rise limit as an inflation control measure. Consumers' real disposable income falls (Figure 5-4). In this year, the annual rate of inflation reaches approximately 25% (Figure 5-2). This makes a significant impact on the cost of living and producer prices soar.

1976 *Introduction of cash limits in government expenditure.* Prior to this innovation, government departments which overspent could be assisted by means of an upwards adjustment in budget. Cash limits, however, provide a new disincentive to overspending by linking budgets to an inflation assumption for the year ahead. Combined with real cuts in government expenditure in the late 1970s (Figure 5-5), this marks a fundamental change in public spending policy.

1976 *Sterling falls below the US$2:00 threshold for first time.* Depreciation of the pound benefits exporters but continues to increase the cost of imports to the UK (Figure 5-6).

■ **1976-79 : The Callaghan years [Labour]** [Apr-76 to May-79]

1976 *IMF crisis.* By the mid 1970s UK government expenditure is growing faster than underlying economic growth. The economy is weak and an approach is therefore made to the IMF (International Monetary Fund) for stand-by credit. In accordance with the terms of the IMF agreement, government expenditure is cut. At the same time, trade union pressure for wage rises and resistence to change in working practices is argued to act as a contributory factor to rising unemployment (Figure 5-3) (West 1987:145). But, in addition, the Minimum Lending Rate reaches 15% (Butler and Butler 1986:377). This increases the cost of borrowing and acts as a disincentive to industry investment: GDP falls (Figure 5-1) and jobs are lost. In the face of continued high inflation, consumers experience a fall in real disposable income and begin to save less (Figure 5-4).

1977 *Voluntary incomes policy.* The Labour government continues to seek a voluntary 10% limit on earnings increases (Butler and Butler 1986:377). Although the annual rate of inflation is falling, taxes are high and consumers' ability to save is still constrained (Figure 5-4). The economy experiences a downturn (Figure 5-1).

1979 *Second oil shock.* Oil prices double. This forces industry restructuring and a squeeze on real wages. At the same time, North Sea oil exports double in value, causing speculative interest in the pound to increase. This fuels the appreciation of Sterling (Figure 5-6) so that UK manufacturing sector exports continue to become less competitive in world markets.

- **1979-85 : The early Thatcher years [Conservative]** [from May-79]

1979 *Tax realignment.* The Conservative government cuts income tax from 33% to 30% and raises VAT from 8% to 15% (Butler and Butler 1986:377). The primary purpose of this tax realignment is to remove disincentives to work. However, since the economy is still in deep recession (Figure 5-1), job losses continue to rise (Figure 5-3), and the benefits of real increases in disposable income (brought about by the tax realignment) are not experienced equally throughout the adult population.

1979 *Abolition of exchange rate controls.* These are abolished with the intention of increasing the supply of Sterling. The aim is to reduce the scarcity value of the Pound to speculators and thereby stem its appreciation against the Dollar. However, the reverse outcome is obtained: Sterling rises even further due to an avalanche of buying (Figure 5-6) (Hutton 1995:63). The abolition of exchange rate controls also marks a significant step in the rolling-back of the state (i.e. the gradual disengagement of government in the operation of markets).

1980 *Announcement of Medium Term Financial Strategy (MTFS).* A supply-side strategy, the aim of the MTFS is to reduce inflation via control of the money supply. Committed to Monetarist policies, the Conservative government seeks to reduce the PSBR (Public Sector Borrowing Requirement) as a percentage of GDP. Cuts in government expenditure thereby follow (Figure 5-5). In addition, interest rates are set high to deter lending and inflation of the money supply. However, through 1979-80 this leads to a rush on Sterling, which, as a petro-currency, offers speculators good tradability and high interest returns (Figure 5-6). Priced out of export markets by the appreciation of Sterling, the UK manufacturing sector becomes increasingly less competitive (See Hill 1985). The recession deepens (Figure 5-1), the annual rate of inflation and the unemployment rate both accelerate, and consumers' experience an erosion of real disposable income (Figures 5-2, 5-3, and 5-4).

1982 *Hire purchase controls abolished.* These controls are abolished as part of a wider Monetarist programme of financial deregulation designed to stimulate the economy (Hutton 1995:72). This promotes a consumer boom (focussed primarily on the property market). As real disposable income begins to rise on the back of this boom (Figure 5-4), consumers' become increasingly confident to take on extra debts (see 1980s personal saving ratio in Figure 5-4). Consumers begin to enjoy a period of conspicuous consumption.

1983 *The UK becomes a net importer of manufactured goods.* For the first time since the Industrial Revolution, the UK exports less manufactured goods (by value) than it imports (Butler and Butler 1986:377). With its manufacturing base eroded, the UK is now explicitly a service-based economy.

■ **1985-90 : The late Thatcher years [Conservative]** [to Nov-90]

1985 *Foreign exchange intervention.* Whilst following Monetarist principles and allowing market forces to determine the exchange rate since 1979, the Conservative government now adopts an interventionist policy. In an attempt to stabilize Sterling (which, in 1985, has sunk to an historical low), the Pound is maintained by government intervention or *dirty floating* (see West 1987). By this means control is gained over imported inflation. However, Sterling becomes overvalued relative to the underlying performance of the economy, fuelling import substitution of manufactured goods. In world markets, UK manufacturing exports become less competitive whilst concurrently, world productive capacity in manufacturing increases. This creates immense competitive pressures (see Hill 1985). Jobs are lost as firms automate, restructure, or fail altogether. Unemployment therefore continues to rise (Figure 5-3).

1986 *London Stock Exchange Big Bang.* London Stock Exchange opens to international financial institutions. These institutions, as new members, make markets in stocks and shares, further opening the UK economy to global capital flows. Investors' demand for high returns puts pressure on industry to maintain the growth of profits and dividends. This emphasis on maximization of shareholder value in the short-term contributes to an increase in the use of part-time and casual labour (which gives firms greater flexibility whilst also reducing overheads). Average job tenure therefore decreases as those in employment experience reduced job security (see Hutton 1995). However, the new flexible labour market benefits women, who, through greater participation in the workforce, enjoy increased incomes and spending power (Hutton 1995:179).

1987 *Black Monday share price correction.* Monday October 19th panic selling on the New York Stock Exchange affects equity markets worldwide. The share price correction is experienced as a crash and investors turn increasingly to cash as a safer option. In the UK, companies seeking investment capital find it difficult, for a time, to raise funds via share issues on the London Stock Exchange markets.

1988 *Peak of the 1980s credit boom.* A reduction in top tax rates to 40% particularly benefits high earners in the south-east of England, where property values soar. Strong differentials in the value of property between one area of the UK and another emerge. This contributes to regional as well as social inequality (see Hutton 1995). Feeding on the back of this property boom, however, consumer confidence is high and the personal saving ratio sinks to a record low as high income households, in particular, continue to take on mortgages, refurbish homes and spend on non-essentials (Figure 5-4).

1990 *UK joins the Exchange Rate Mechanism (ERM).* ERM membership is thought by the Conservative government to provide a way of gaining control over the money supply. But control of interest rates is lost altogether as Germany raises its interest rates in order to constrain the inflationary pressure of re-unification. The UK financial services market, which had mushroomed during the 1980s credit boom, now retrenches and jobs are lost. Confidence in the property market collapses and homeowners experience *negative equity* as the value of property falls. Private households now hold £114 of debt for every £100 of disposable income - double the 1980 level (Hutton 1995:71). Lenders and borrowers alike lose confidence and the boom, which had been feeding on itself, comes to an end. A period of credit crunch, reflected in the personal saving ratio (Figure 5-4) now acts to correct the credit expansion of the 1980s (Figure 5-4). The public sector, in surplus in 1990, slides into the biggest deficit in peacetime history (Hutton 1995:76). The economy sinks into recession (Figure 5-1).

- **1990-97 : The Major years [Conservative]** [Nov-90 to May-97]

1990 *Maastricht Treaty on European Union.* The European Economic Community

(EEC) becomes the European Community (EC) and a common accord is adopted to achieve political, economic and monetary union. In accordance with Article 103, UK economic policies, along with those of other Member States, become *a matter of common concern* to be coordinated within the Council of the EU.

1992 *Completion of the Single European Market (SEM).* With the removal of trade barriers between Member States, along with a process of harmonization of legislation, the UK becomes further integrated into a European common market. Whilst initially, some sectors of industry bear the cost of adjustment to changes in legislation, other sectors experience immediate benefits through greater access to markets in continental Europe.

1993 *Post ERM budget cuts.* In order to cope with the post-ERM budget deficit, public spending is cut and taxes raised. This adds to the problems of those consumers already burdened by debt from the 1980s credit boom. Government expenditure is severely curtailed as Major sticks to the anti-Keynesian policies of the Thatcher years (Figure 5-5). This means that government does not attempt to spend its way out of recession. The unemployment rate exceeds 10% for the second year running (Figure 5-3).

1994 *Cash for questions affair.* Ministers Tim Smith and Neil Hamilton resign amid allegations that they had asked questions in Parliament in return for personal favours. The *sleaze factor* in public life now a becomes a central issue and pressure for accountability increases.

1995 *Emergence of the 'new magistracy'.* Government by quango (i.e. Executive Non-departmental Public Bodies or NDPBs) becomes a significant force. It is estimated that 70,000 public appointments can now be made by government ministers and that these appointments (including non-political business appointments) show a political bias in favour of *a private oligarchy of unelected Conservatives discharging public duties* (See Hutton 1995:39). This further fuels the accountability debate.

1995 *First Nolan Committee report on standards in public life.* The first report of the Nolan Committee is published and recommendations are made to safeguard the *seven principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty* and *leadership* (CSPL 1995). These recommendations address the expected behaviour of ministers, civil servants, as well as those serving on quangos. The pursuit of accountability in public life becomes an explicit goal.

1995 *First National Lottery awards distributed.* The five good causes identified in The National Lottery Act 1993 begin to receive funding. These five good causes include the Arts, and awards are made to a wide range of arts organisations for the purposes of capital projects such as theatre refurbishment.

- **1997-ongoing : The Blair years [Labour]** [from May-97]

Latest available data for the parametric study pertains to 1996. Summary of the Blair years is therefore not provided although reference to key events within this, the current era, are made in the results and discussion section which follow.

6. LONG-RUN BEHAVIOUR OF THE UK SUBSIDIZED SECTOR [1976-95]

1 : A rising historical trend in the real cost of opera

Figure 6-1 shows the relationship between our chosen measures of transformation for the main companies of the UK subsidized sector. These measures represent: real turnover (*financial value* input), employees (a complex input representing both *financial* and *artistic value* input, and best understood as expressing labour intensity), and performances (*artistic value* output).

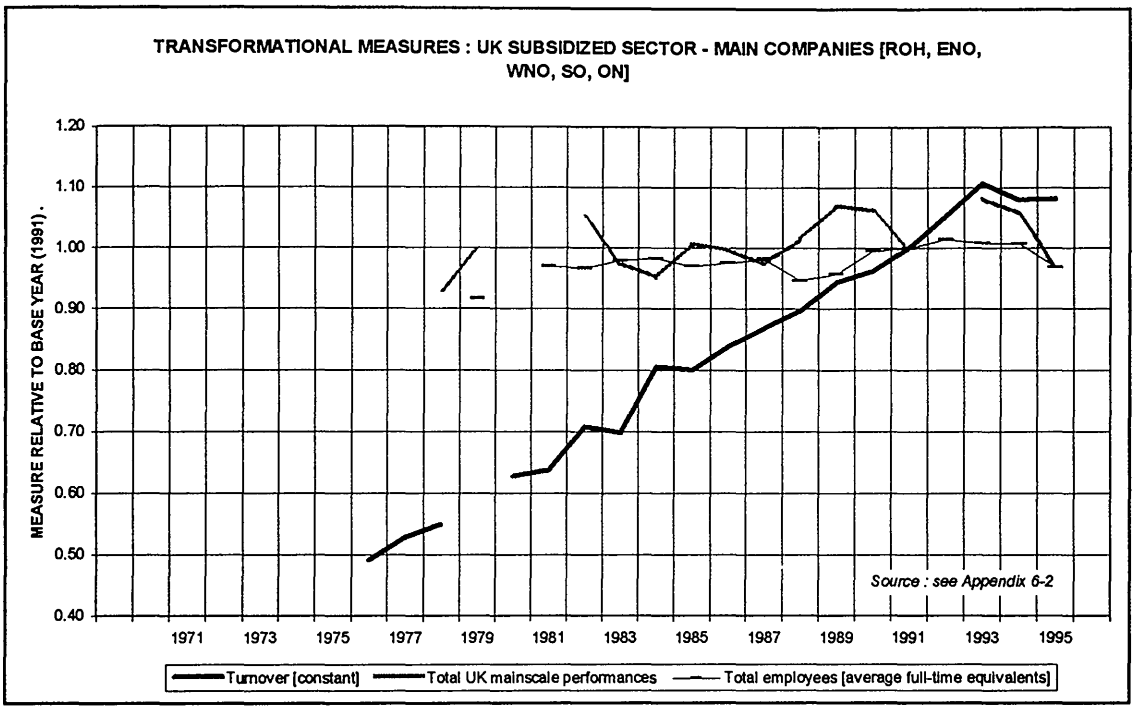


***Figure 6-1** : Transformational measures : UK subsidized sector (main companies)*

From Figure 6-1 we can see that the real costs of opera (here represented by proxy as real turnover) have more than doubled in the twenty year period from the mid 1970s to the mid 1990s. At the same time, the labour input required to produce one mainscale opera performance has remained more or less steady (±10%), as has the total annual output or number of performances (±10%). Thus, by the mid 1990s, it cost over twice as much, in real terms, to produce one opera performance in the subsidized sector, as it did in the 1970s. This is a highly significant finding: significant because it tells us very clearly that in historical or long-run terms, the *financial value* input required to produce a given quantity of mainscale opera, in the subsidized sector, has been rising year on year for the last twenty years, irrespective of downturns or recessionary cycles in the UK economy. This finding demands explanation.

1a : No single company exceptions to the rising cost trend

Figure 6-2 shows the rise in real turnover in the UK subsidized sector by component opera company. It is immediately clear that within the sector there are no exceptions to the general trend: in each case real turnover is rising. Thus, within the sector, the real cost rise is universal.

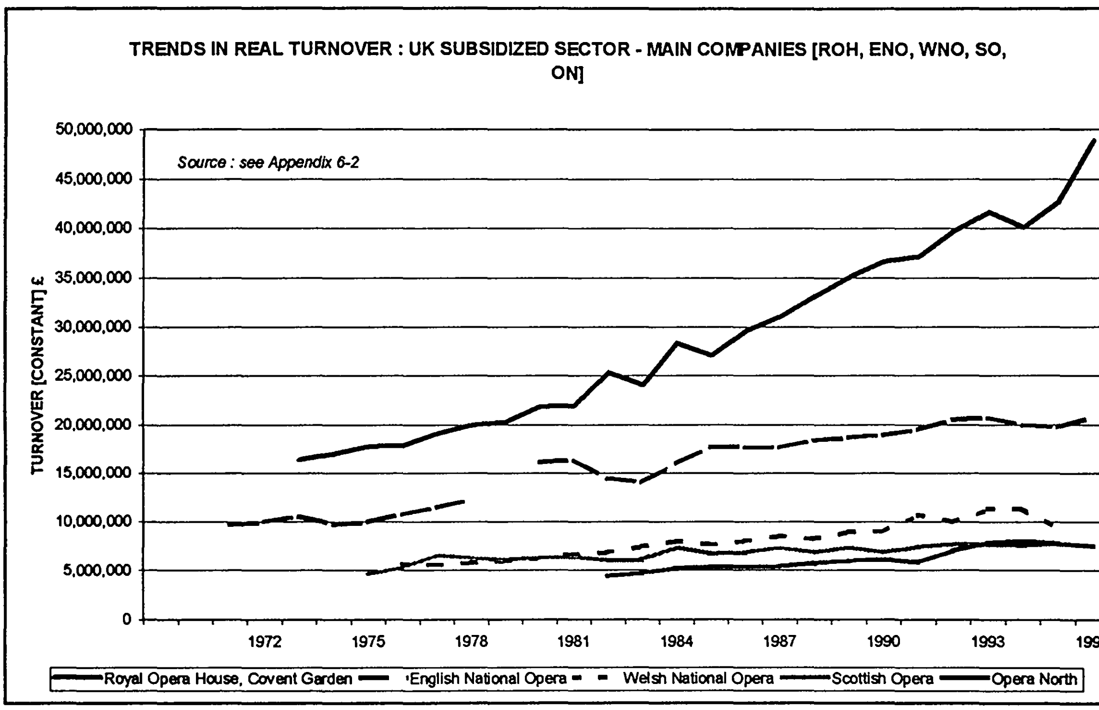


***Figure 6-2 :** Trends in real turnover : UK subsidized sector (main companies)*

1b : No abatement in the rising cost trend

As can be seen from Figure 6-2 (and Appendix 6-2) there are no two consecutive years of decline in turnover. The trend in real costs shows a constant climb from the 1970s to the 1990s. Moreover, in the absence of any significant decline, the rising cost trend for the sector as a whole looks set to continue into the twenty-first century. If this is the case, it suggests that a time will come when the UK government will simply no longer be able to afford opera. The question is, when, and in what manner, will this point arrive?

2 : Evidence that the powerhouse driver-follower model persists in the 1990s

Though we saw from Figure 6-2 that there is homogeneity in terms of the general direction of the UK subsidized sector (the rising cost trend was universally expressed), certain differences between member companies are apparent. For instance, ROH can be seen to have consolidated its position as *powerhouse*, in terms of total *financial value* input, whilst ENO has tended to lag, in second place, over the period. Moreover, the fact that WNO, SO and ON are all grouped around a tight band of turnover level suggests that there might be some *natural* level at which *powerhouse beneficiaries* or *followers* can best function - a kind of optimal level for *artistic value.*

2a : ROH is the main driver of the rise in real costs in the UK subsidized sector

Due to the distorting effect of ROH, Figure 6-2 does not readily show, however, that there are still significant differences between subsidized sector members in terms of the relative change in turnover over the period. These turnover differentials are presented in Figure 6-3 below.

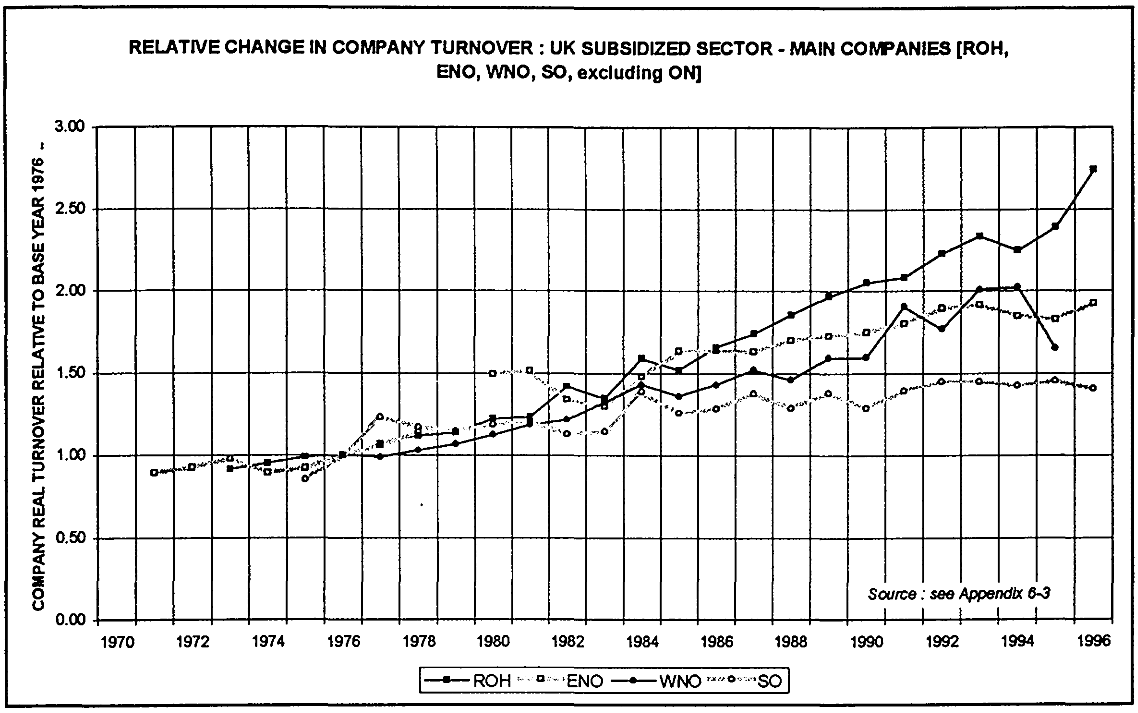


Figure 6-3 : *Relative change in company turnover : UK subsidized sector (main companies)*

From Figure 6-3 it is apparent that of the companies in the sector, ROH has maintained the greatest continuous increase in turnover since 1976, whilst SO has shown the least. The marked volatility of the WNO trend is also a feature. But what explains these differentials?

Figure 6-4 and Table 6-1 (together with data in Appendix 6-4) shows an intercompany comparison of real turnover rates and components (1976-95) for those sector representatives for which sufficient data could be extracted from the published accounts (see Appendices section 7). By computing the differential rates of turnover rise it can be seen that ROH turnover has risen in the period proportionately more (at 141%) than all other sector members (rates not stated in the table are : WNO, 65%; and ON, from 1982, 77%). This confirms Figure 6-3 which indicates that ROH is the main *driver* of the overall sector rise in real costs: rising three times as fast as SO, for instance.

It is worth pointing out that in Figure 6-3 smooth trends generally indicate intrinsic behaviour and abrupt changes generally reflect changes in policy or exposure to change in the environment e.g. fall in sponsorship and donations income during a period of recession in the wider economy. This is further explored below.

2b : Evidence of subsidy capture by ROH suggests the existence of pre-agreed funding parities

Despite changes in the respective public income factors for the companies compared between 1976 and 1995 (i.e. the proportion of income sourced from public funds), overall, the sharing out of subsidy between ROH, ENO and SO has not changed in twenty years (see Table 6-1). This is a major finding, suggesting that subsidy policy for opera in the UK has not been examined despite two recessionary periods (one in the early 1980s and one in the early 1990s) and declining growth in government expenditure on recreational and cultural affairs (see Figure 5-1 and 5-5 respectively). In addition, it also suggests that public subsidy is not awarded to opera companies on the basis of need, or of merit.

SUMMARY OF INTERCOMPANY COMPARISON (1976-1995)							
	CHANGE IN REAL TURNOVER ON 1976	1976 PUBLIC INCOME FACTOR	1995 PUBLIC INCOME FACTOR	1976 REAL PUBLIC INCOME	% SHARE	1995 REAL PUBLIC INCOME	% SHARE
ROH Group	141%	55%	34%	11,910,200	52%	17,613,900	53%
ENO	83%	70%	54%	7,521,232	33%	10,630,800	32%
SO	45%	65%	62%	3,445,574	15%	4,789,238	14%
			TOTAL	22,877,006	100%	33,033,938	100%
Source : See Appendix 6-4							

***Table 6-1** : Summary of intercompany comparison (1976-95)*

However, the significant turnover increase differential which exists between ROH and SO also raises the possibility of significant subsidy capture by ROH. To discover whether subsidy capture is occurring (i.e. capturing proportionately more of an available pool of subsidy in such a way as to promote inequity), we need to examine the component parts of turnover in our intercompany comparison (see Figure 6-4).

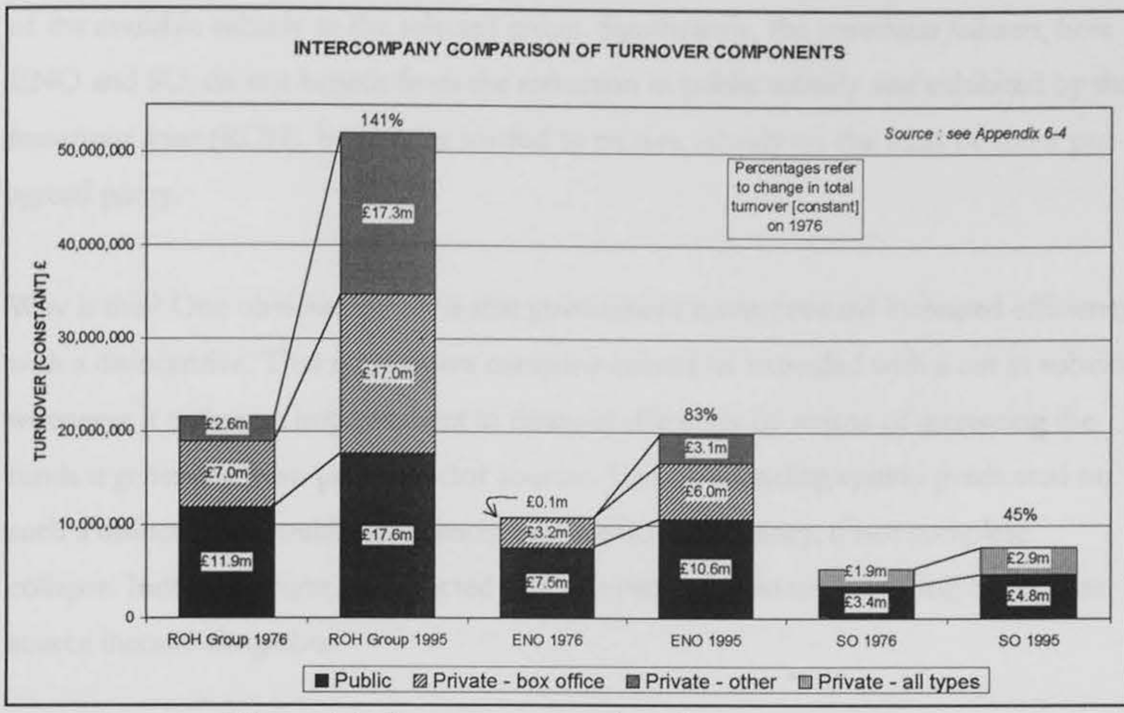


***Figure 6-4** : Intercompany comparison of turnover components*

If we look at what we may term the *public income factor* (i.e. public sources as a percentage of turnover) a term we introduced above, it can be seen that ROH is the only company to have reduced its reliance on public sources of income to less than 50% (achieving a public income factor of 34% by 1995). Whilst ENO and SO have also reduced their respective public income factors over the period considered, ROH has, in proportionate terms, made the largest reduction (21 percentage points from 55% to 34%)(see Table 6-1). Superficially, this suggests that ROH has become less dependent on public subsidy over the period 1976-95.

However, this does not immediately eliminate the possibility of subsidy capture. Whilst the ROH public income factor (the percentage income derived from public sources) has fallen in the period (a *good* result), the percentage share which ROH takes of total available subsidy to the three companies has risen (a *bad* result). This suggests that public subsidy is not awarded on the basis of need. That is, although ROH appears to be less dependent on public subsidy by 1995, it still continues to command over 50% of the available subsidy to the selected group. Significantly, the *powerhouse followers*, here ENO and SO, do not benefit from the reduction in public subsidy *need* exhibited by the *powerhouse driver* (ROH), but appear instead to receive subsidy on the basis of some pre-agreed parity.

Why is this? One obvious answer is that government cannot reward increased efficiency with a disincentive. That is, an opera company cannot be rewarded with a cut in subsidy whenever it makes an improvement in financial efficiency by means of increasing the funds it generates from private sector sources. Clearly, a funding system predicated on such a disincentive would simply encourage greater inefficiency, if not complete collapse. Indeed, it might be expected that companies would cease looking for private source income altogether.

These results suggest, therefore, that there is a fundamental flaw in the whole public funding system for opera in the UK. Specifically, it suggests that government is, to some extent, held to ransom by gains in efficiency in the sector which it is funding. ROH, for instance, seems to have been allowed to capture a slightly increased proportion of available subsidy, despite significant improvements in its financial efficiency (reduced public income factor). Moreover, these results suggest that subsidy is awarded to sector members less on the basis of *artistic value* and more on the basis of accounting ratios (which act to maintain any effective, long-standing parity agreements which may exist). Indeed, evidence presented in chapter 7 strongly supports this finding. In the course of research for this study, for instance, it was discovered that the Arts Council of England (ACE) prefers to see its clients' box office income settle at around 40% of total annual income (SC 1998a). This means, in effect, that subsidy is currently awarded according to an ad hoc rule, which, because it is predicated on an assumption of stasis, does not indicate what the appropriate response to improvements in efficiency might be. Indeed, we must ask, what exactly *is* the *raison d'être* of Arts Council *Incentive Funding* programmes, given our findings here? (For discussion see ENO results, chapter 7).

2c : Evidence of subsidy capture by ROH audiences

Intensification funded via increases in ticket yield permits the capture of subsidy, by audiences, by excluding those taxpayers who may be sensitive to real price increases. Evidence suggests that although ROH audiences appear to be paying more in real terms for tickets in the mid 1990s than in the mid 1970s, by the end of the survey period (1996) they were experiencing greater subsidy capture on a per capita basis.

In its current manifestation, the allocation of subsidy to individual arts organisations is not a precise science. Whilst the thrust of public policy in this area centres on the idea of increasing access to the arts, and making the arts as a whole open to all, there is an absence of clear objectives (for discussion see Peacock 1994:170). It is perhaps this lack of precision which permits the possibility of inequity in subsidy distribution. *Arts for all* (see Peacock 1994:171) can, it seems, easily translate to *arts for the few*.

In the context of ticket price rises, two things may occur: exclusion and capture. Exclusion occurs where a company's audience becomes concentrated around those groups who can afford to pay higher ticket prices. Capture occurs where the company's subsidy share is maintained despite improvements in box office income (funded via ticket price increases and concentration of audience groups). In this way, those audience members least in need of the incentive of subsidized seats (i.e. those who least need assistance in gaining access to the artform) effectively get more. Whilst an audience, concentrated around those groups less sensitive to price increases (e.g. high income groups) may pay higher prices than other opera audiences, it will still receive the benefit of subsidy when other audiences may have greater need.

From Appendix 7-3 we can see that ROH output (taking output corrected for allowable activity, since full group data is not available) has remained steady. Box office income in real terms, however, has increased by 141% over the same 20 year period (1976-95) (Table 6-1). This combined result suggests that a substantial increase in ticket yield has occurred (i.e. the margin made on each ticket sale).

Note, we can discount the possibility that this real increase in ROH box office income is the result simply of better capacity utilisation (fuller *houses*) since Covent Garden would have to have been much more poorly attended in the 1970s for this to be true. Moreover, we know that these figures pertain largely to Covent Garden itself, since tour income is excluded. This eliminates another potential source of capacity variation (see Note (a) in Appendix 6-4) so we can be sure that these figures reflect a relatively fixed capacity.

Since we have ruled out an increase in output as an explanator of increased box office income, and an increase in capacity seems very unlikely as an explanator, this means that ROH audiences must be paying more, in real terms, for their seats today than they did in the 1970s. Whilst it is not the aim of this study to investigate ticket prices, (for background see Waters 1989), this finding suggests that ROH audiences, although paying more in real terms, nevertheless receive a greater proportion of available subsidy than they did in the mid 1970s. Although the proportions are small (e.g. 2 percentage point change in share between ROH and ENO; note the 2% differential equates to around £6.6 million as per Table 6-1) it suggests that those taxpayers who are least price sensitive (i.e. most able to withstand real price increases) are also those who are receiving increased per capita subsidy in the 1990s.

Notwithstanding issues of ticket price spread (it may well be that as top ticket prices rise, lower bands fall), the significance of the aggregate rise in ROH box office income does imply a concentration of the ROH audience around those groups who are not price sensitive i.e. those who can still access performances despite real price increases.

This must also have a bearing on *artistic value* since higher income groups, because of their obvious value to the opera company in these circumstances, may be able to promote their own artistic tastes and preferences ahead of other groups in the same audience. If this is true, it introduces a barrier to full and free participation in the *artistic value* franchise (for further discussion see chapter 7).

3 : The real rise in the cost of opera reflects an active intensification which is not externally imposed

The most important observation we may make from the data presented thus far is that there is active investment within the UK subsidized opera sector. Specifically, the real rise in the cost of opera does not reflect an increase in output, but an intensification, a concentration of resources which, as we shall demonstrate, is not externally imposed.

Now we have already seen from the data presented in Figure 6-1 and Appendix 6-2 that real turnover in the subsidized sector as a whole has more than doubled (showing a rise of 120%) between 1976 and 1995. We also saw from Figure 6-1 that output (as measured by total UK mainscale performances per year) has remained essentially stable (±10%). This combination of factors leads us to discover an underlying financial intensification - a steady and universal increase in real spend per performance over the period (see Figure 6-5). Thus, whereas in 1978, the earliest year for which we can compute this figure, the real average turnover or spend per performance (i.e. the average real investment required to produce one mainscale opera performance) was £63,000, by 1985 it was £85,000, and by 1995 it was £120,000: a near doubling within the period. Such a dramatic increase in financial intensity demands explanation in causal terms.

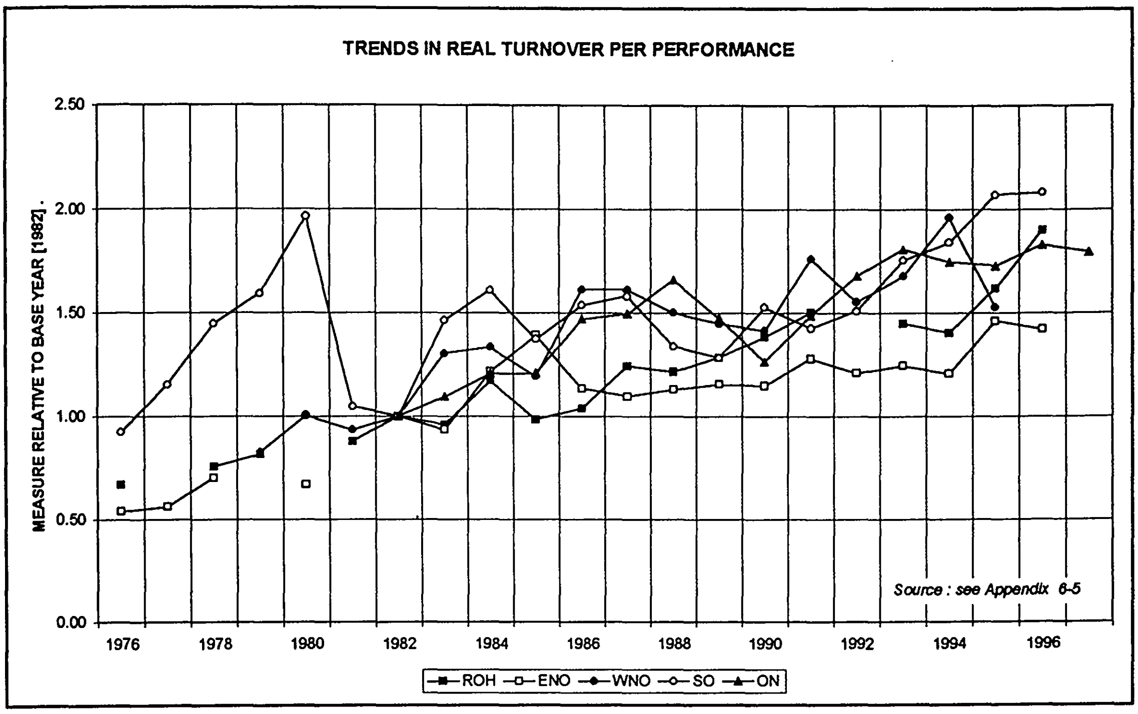


Figure 6-5 *: Trends in real turnover per performance (UK subsidized sector)*

3a : No single factor explains the overall rise in the real cost of opera, therefore the productivity lag model is not a sufficient explanator of the rising cost trend

Now, according to the Baumol and Bowen thesis (the *productivity lag* or *cost disease* model, discussed in Chapter 3), the rising historical trend in the real cost of opera which we have found ought to be explained by the combination, particular to artistic production, of wage inflation plus productivity constraints. We shall demonstrate, however, that the *productivity lag* model does not provide a sufficient explanator of the rising cost trend for two reasons: a) no single factor (i.e. labour costs) explains the rising cost trend; and b) intrinsic factors cannot be ruled out (e.g. poor management control and/or active investment in overheads).

Table 6-2 shows the staff cost data for ROH (the company which exhibits the fastest cost rise in the sector) over the ten year period 1983-93. Whilst ROH group turnover rose by some £22 million in real terms (taking this again as a proxy measure of expenditure), staff costs rose by just under £9 million, leaving some £13 million in unexplained cost rises. Even although this does not represent the total labour cost of the ROH operation (elements of casual labour and subcontracting may be hidden within other costs categories such as production) it would indicate that some other factor, other than that posited by the Baumol and Bowen *productivity lag* model (i.e. wage inflation plus productivity constraint), is responsible for the rise in the real cost of opera.

CALCULATION OF STAFF COSTS IN REAL TERMS : ROYAL OPERA HOUSE, COVENT GARDEN 1983-93

YEAR	EMPLOYEES Group total	PERFORMANCES RO+RB performances at Covent Garden	WAGE & SALARY COSTS [CURRENT] Net of Social Security and pension costs (£)	WAGE & SALARY COSTS [CONSTANT] Net of Social Security and pension costs (£)	AVERAGE REMUNERATION Avg remuneration [constant] per employee (£)	TURNOVER [CONSTANT] Group total (£)	TURNOVER [CONSTANT] Corrected for allowable activity (£)	UNIT LABOUR COST PER PERFORMANCE (£)
1983	1043	236	11,510,000	17,955,600	17,215	29,463,720	23,994,619	72.9
1984	1042	228	12,359,000	18,662,090	17,910	34,803,990	28,322,496	78.6
1985	1045	259	11,712,000	16,748,160	16,027	33,949,630	27,063,751	61.9
1986	1051	268	12,645,000	17,576,550	16,724	36,612,600	29,525,755	62.4
1987	1044	235	15,163,000	20,166,790	19,317	40,477,220	31,006,756	82.2
1988	1033	256	16,170,000	20,535,900	19,880	39,246,810	33,045,591	77.7
1989	1073	257	18,018,000	21,081,060	19,647	41,027,220	35,026,817	76.4
1990	1112	249	22,035,000	23,577,450	21,203	42,248,950	36,577,918	85.2
1991	1152	233	24,321,000	24,321,000	21,112	44,129,000	37,135,000	90.6
1992	1128		27,669,000	26,562,240	23,548	46,803,840	39,716,160	
1993	1096	271	28,529,000	26,817,260	24,468	51,532,680	41,657,980	90.3
PERCENTAGE INCREASE ON 1983				49%		75%	74%	24%
ABSOLUTE INCREASE ON 1983				8.862 million		22.069 million	17.663 million	17.3

Source : See Appendix 6-6

Table 6-2 : *Real staff costs - ROH 1983-93*

However, if we look at the dynamics of the actual staff costs in Table 6-2, it can be seen that the real rise in wages and salaries which it shows has been driven by a steady increase in average remuneration per employee. In concise terms: over the given period, the same number of staff (±10%) have been paying themselves more to produce the same number of mainscale opera performances per annum (±10%, as per Figure 6-1).

Clearly, then, ROH wages and salaries have been rising at a faster rate than inflation: a finding which appears to substantiate the Baumol and Bowen thesis. Indeed, in some years, the rise is spectacular e.g. 16% between 1986 and 1987, and 12% between 1991 and 1992. This suggests three possible causal factors: changes in working practices, changes in contract terms, or straight rises in the value of remuneration (caused by extrinsic forces); all of which, again, are consistent with the Baumol and Bowen thesis. However, for the Baumol and Bowen thesis or *productivity lag* model to be true, in this context, these factors (applying equally to any other hidden labour costs) would need to count as the sole or sufficient explanators of the cost rise.

But as we have seen, wage costs alone account for only 40%, approximately, of the overall cost increase between 1983 and 1993 at ROH. Even if we doubled this, to make allowance for possible hidden labour costs (as discussed above), a significant proportion of the cost increase (20%) would still remain unexplained. How then can we explain the overall rise in the real cost of opera? Table 6-3 presents a component breakdown of cost increases at ROH over the same ten year period (1983-93). Significantly, the table clearly shows that there is no single factor which explains the overall cost rise.

Now, the breakdown in Table 6-3 follows the main cost components as reported in the published accounts of ROH. Note that the total £28 million rise in real costs explained in this table exceeds the £22 million rise in real turnover that we seek to explain in Table 6-2. This is because of possible double counting (the constituent parts of these cost components are not reported in detail and may change over time) and because of the fact that total expenditure figures (as per the income and expenditure account) are not reported in a consistent and reliable form from year to year. Nevertheless, the data in both tables is internally consistent.

EXPLANATION OF COST INCREASES IN REAL TERMS : ROYAL OPERA HOUSE, COVENT GARDEN 1983-93					
COST COMPONENT ROH Group	1983 [CONSTANT] £	% SHARE	1993 [CONSTANT] £	% SHARE	ABSOLUTE INCREASE 1983-93 (£ million)
Performance & rehearsal	13,136,760	28%	20,007,900	27%	6.871
Production, staging & transport	7,133,880	15%	12,177,700	16%	5.044
Administration & premises	5,311,800	11%	9,886,920	13%	4.575
UK & overseas touring	3,160,560	7%	5,970,880	8%	2.810
Wage & salaries (net Social Security & pensions)	17,955,600	38%	26,817,260	36%	8.862
TOTAL	46,698,600	100%	74,860,660	100%	
	ABSOLUTE INCREASE ON 1983				**28.162 million**
Source : see Appendix 6-7					

Table 6-3 : *Explanation of increases in real costs* - ROH *1983-93*

Two features, however, are significant in table 6-3. Firstly, no single factor explains the overall rise in the real cost of opera. For instance, even although performance (performance and rehearsal) and production (Production, staging and transport) costs are taken together, at £12 million, they still account for less than half the £28 million cost rise we seek to explain. Secondly, the distribution of cost remains static over the ten year interval, suggesting that individual departments or functions spend, independently, to their respective budget maximums, and that ROH budgeting policy, as a whole, is static.

This second feature is particularly surprising since, in the long-term, we would expect to see variation in the underlying pattern of costs. Specifically, we would expect to see variation in the rate of growth of individual costs or cost group components (especially if, as the Baumol and Bowen thesis posits, an element of hidden labour is contained within each). In fact, in their study of Metropolitan Opera personnel costs, Baumol and

Bowen discovered precisely this effect; finding significant variation in the rate of growth of wages and salaries across different functions, so that wardrobe and scenery personnel costs rose, for instance, much more slowly than other department personnel costs (Baumol and Bowen 1966:212).

There are many reasons for such variation. Compliance with new Health and Safety regulations, for instance, might mean that two technical personnel are required to oversee certain items of scenery equipment where formerly, one was sufficient. This would immediately increase the variable costs of performance at a faster rate than before introduction of the regulations. The same would apply to non-labour costs: some materials costs, such as special paints and fabrics, might rise more quickly than other production costs because of external factors e.g. monopoly position of suppliers, exchange rate fluctuations, cost of suppliers' own Health and Safety compliance and so forth.

The fact that the overall distribution of ROH costs has remained static suggests that budgeting policy has not been examined in ten years, and that departments or functions spend their respective budgets to the full, even though some may be considerably less cash-strapped than others. This is akin to a hospital model of funding, which works on the basis of allocating budgets to functions which operate in a way largely independent of each other e.g. orthopaedics will use the services of the radiography department, but each has its own budget and each, therefore, its own resource allocation to defend. There is no natural incentive for departments to show financial efficiency in this model (i.e. to deliver a full service and, where possible, return a budget surplus) since this is likely to incur the penalty of a reduced budget allocation in the following year.

We may infer, then, that some departments or functions at ROH have enjoyed, or are enjoying, a period of feast relative to the famine of others, precisely because budgeting does not appear to reflect expected cost growth rate differentials. Such a situation has profound implications for *artistic value* and may explain something of the company's apparent preoccupation with detail in the visual design aspects of production (such as authentic costumes made with real leather which have to be replaced between productions or even repeatedly remade within one production run of a work (SC1999a). Whilst this evidence is anecdotal, it does suggest that there has at least been room to manoeuvre within the ROH wardrobe budget in the past.

More specifically, it is worth noting, in this context, the pattern of change in average remuneration shown in Table 6-2. The sudden and significant rises in 1986, 1987, and 1992 (as described above) suggest a policy of wage rise deferral. Deferral or postponement of costs (such as wages) introduces an element of instability, since cost behaviour becomes less predicable and cost discontinuities, in the short-run, disrupt management planning. So, whilst apparently discounted in the long-run, we can be sure that these cost differentials do indeed occur.

Now, in addition, it is also clear that the overall cost rise in opera cannot be solely due to what is often termed, the *star system* (i.e. the increasing fees paid to a relatively small élite of guest artists) because real expenditure has risen on all fronts. The *star system*, as Baumol and Bowen also posit, may be a contributory factor, but it is not a sufficient explanator of the real cost rise in opera. It is also worth noting that reliable data on guest artist fees cannot be ascertained from the published annual accounts and reports since guest artist fees are not reported as a separable item (the same problem which Baumol and Bowen encountered over thirty years ago). Indeed, in the main, it is not possible to ascertain under what expenditure heading such fees are subsumed (i.e. as production costs or performance costs). This means we cannot rule out the possibility that the total labour costs of everyone involved in the production of opera (i.e. guest artists plus management, administration, technical, wardrobe and music personnel) not just the stars alone, constitutes the main factor driving the real rise in the cost of opera. To this extent, then, we cannot conclusively disprove the Baumol and Bowen thesis.

Equally, however, the Baumol and Bowen thesis does not take account of changes in investment (what we may term, technical elaboration). The implicit assumption of the Baumol and Bowen thesis is that arts organizations, such as opera companies, are technical efficiency maximizers, or at least, that they are cost minimizers: using *staving-off* procedures and cost cutting exercises to maintain viability (see, for instance, Baumol and Bowen 1966:156). But this does not allow for the possibility of profligacy and poor budgeting and purchasing management skills, a recent example of which was revealed by the Department of Culture Media and Sport Select Committee inquiry into the closure plans for ROH:

> *Lord Chadlington* [Chairman of the Board] *said that the financial information available to the management did not reflect the wider consequences of financial decisions and was 'inadequate in the extreme'. Sir Jeremy Isaacs* [General Director] *and Sir Angus Stirling* [former Chairman of the Board] *disputed this picture of financial management. According to the latter, a finance committee 'examined, month by month, the actual projected income against budget, and against reports by the management'. We requested from the Royal Opera House a month by month balance sheet to demonstrate the path of the deficit. In reply, Ms Allen* [then Chief Executive] *stated that 'it is not possible to let you have the financial information you have asked for, since the Royal Opera House has not in the past produced it. It has been a source of concern to me and to Richard Hall* [then Finance Director] *since our arrival, that we have neither monthly balance sheets nor monthly profit and loss accounts'* (DCMS SC1 1997:IV).

Our results, then, strongly suggest that poor management control is an issue worthy of further consideration.

Indeed, it is now time to question the central assumption of the Baumol and Bowen thesis, that: *waste and mismanagement which have clearly aggravated the financial problems of the arts... are not the main culprits* (Baumol and Bowen 1966:10). It is also time to test for the possibility of active investment. Specifically, there is need to test for passive cost creep versus active investment.

Overall, the peculiarly static nature of cost behaviour we have found also suggests that it is worth testing a new hypothesis: that the *productivity lag* or *cost disease* rationale for public subsidization of opera has become self-fulfilling; that in the long-run, the medicine of subsidy may fuel rather than fight *cost disease*, and that opera companies in the UK may have become acculturated to a policy of budget maximisation, knowing that, in effect, to spend is to receive. Interestingly, the question of budget maximization behaviour is also considered by Mokre (1996) in the context of a study of Austrian theatre funding.

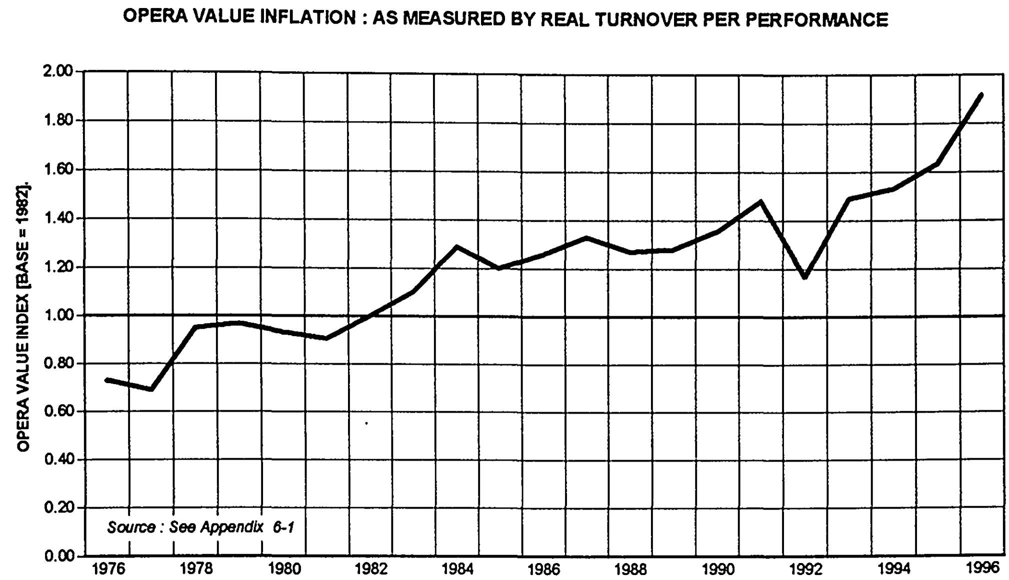
3b : The historical trend in the real cost of opera represents opera value inflation

The real increase in the cost of opera which we have discovered is not explained by *productivity lag* (i.e. by the Baumol and Bowen thesis), or by the effect of exposure to other extrinsic factors in the environment (such as recessionary cycles). This indicates the existence of an inflationary process and suggests that the real rise in cost is being driven by a range of factors intrinsic to the international opera market (i.e. intrasector factor pricing). In sum, we have found *opera value inflation* (Figure 6-6); and inflation which, it is likely, is imported from countries in which opera receives more generous public funding.

By intrasector factor pricing, we mean the setting and controlling of factor prices (chiefly labour, in the form of guest artists) by, or within, the international opera community itself. The cultivation of star conductors, designers, directors and singers, for instance (the cultivation of a perceived élite i.e. the cultivation of scarcity value) creates a *financial value* disequilibrium: because there exists a market for such an élite, demand will consistently outstrip supply, all things being equal. This, in turn, will tend to drive costs up and the ceiling here may well be *what the market can bear*. Since the market for guest artist *stars* is international, those opera companies with the greatest purchasing power will, effectively, set the price which others must follow if they are to compete for the same factors. This sets an inflationary process in motion, a process which, because of the problem of long planning horizons and potential competitive bidding, may well take on the quality of a full-scale futures market. The significant point here is that in the UK, this type of *opera value inflation* may well be imported from those countries in which opera receives more generous public funding, such as Austria, Germany and Italy, for example (see Priestley 1983 and Myerscough 1984).

The effects of this inflationary process are likely to be felt across the whole organisation (i.e. across all those departments or functions of the opera company directly concerned with the production of opera).

Designers and directors, it must be remembered, through the sum of their activity, create stylistic or artistic paradigms of what is, at any give time, considered to be of particular *artistic value* in the international opera market. The favoured stars or rising stars of opera stage design and direction, by virtue of their activities within an internationalised opera market, create prevailing fashions which opera companies seeking international status feel obliged to follow. It is a self-defining activity (the deliberate creation of scarcity *within* the opera market) which also sets the level of *financial value* required to meet the canon or *artistic value standard.* These fashions or style paradigms (e.g. minimalism, updated opera; for Wagner examples see Nattiez 1989) represent another cost which must be borne by the host company. Not only must the host company pay the guest designer's fee, for instance, it must follow, in effect, the investment criteria set by the designer (sets, props and possibly also wardrobe). If the guest designer chooses to pursue an ambitious or costly project, there is little the opera company can do if it wishes to build up its reputation in an international market where *artistic value* standards are set according to criteria over which it has no control. In other words, the company must follow the canon whatever the cost.



	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
INDEX	0.73	0.69	0.95	0.97	0.93	0.90	1.00	1.10	1.29	1.20	1.26	1.33	1.27	1.28	1.35	1.48	1.17	1.49	1.53	1.63	1.91

Figure 6-6 : *Opera value inflation*

Exposure to *opera value inflation* in this way is exacerbated in the UK, at least, by the overall homogeneity of the opera infrastructure (see earlier findings in this chapter). Were a truly competitive model or infrastructure to be in place, it is likely that different companies would pursue different artistic strategies, and therefore different audiences, so that a single international market for opera *stars*, and therefore dominant *artistic value* paradigms (which set *financial value* input levels) would not exist to the same extent. (For calculation of the *opera value inflation* index see Appendix 6-1).

3c : The pursuit of economies of scale by the UK subsidized sector may indicate response to opera value inflation

Across the UK subsidized sector as a whole, management of the yearly production portfolio reveals the pursuit of certain economies of scale, specifically: a narrowing of the yearly production portfolio coupled with extension of the average production run. We can infer that this action has been taken in response to the problem of *opera value inflation.*

Whilst the real cost of opera has risen, output (total performances in year) has remained essentially flat (see again, Figure 6-1). From this we established that there has occurred a near doubling of real spend per performance since the 1970s (see Finding 3). We also established, using that cost data which was available and which was reliable, that actual real costs have, consistently, risen faster than inflation; and that this indicated the existence of *opera value inflation* (see Finding 3c).

Now the pursuit of economies of scale, which is the putative response to this inflationary pressure, is illustrated in Figures 6-7 and 6-8.

Figure 6-7 confirms that very little change has occurred in the output of the UK subsidized sector since the 1970s (trends in output, as measured by total mainscale opera performances per year, have remained essentially flat), ENO is the only company to show significant change.

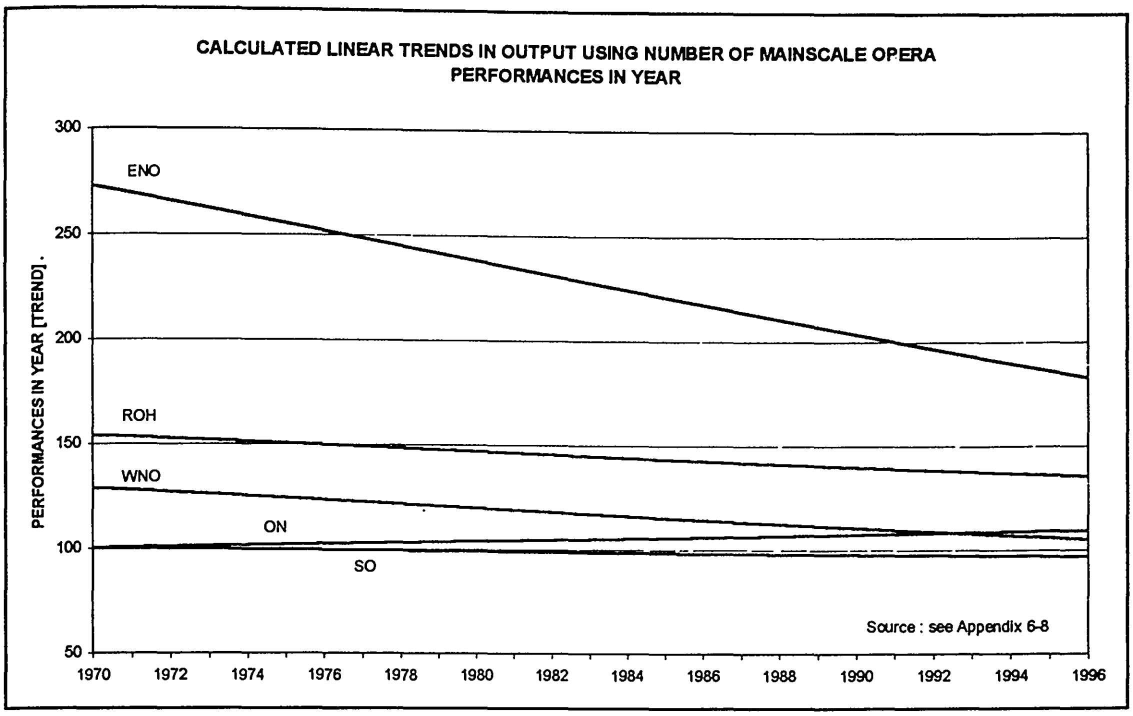


***Figure 6-7** : Calculated linear trends in output (UK subsidized sector)*

However, Figure 6-7, whilst based on imperfect data for the sector as a whole (see Appendix 6-8) illustrates the existence of a non-random effect within the context of this static output, that is: a narrowing of the yearly production portfolio coupled with extension of the average production run. This is significant, suggesting, as we would expect, that investing more in a single production (as the increased real spend per performance here implies) necessitates a longer production run if that investment is to have any chance of being properly recouped. So this relationship between yearly productions and production runs, as demonstrated in Figure 6-8, is not accidental: it indicates the pursuit of economies of scale.

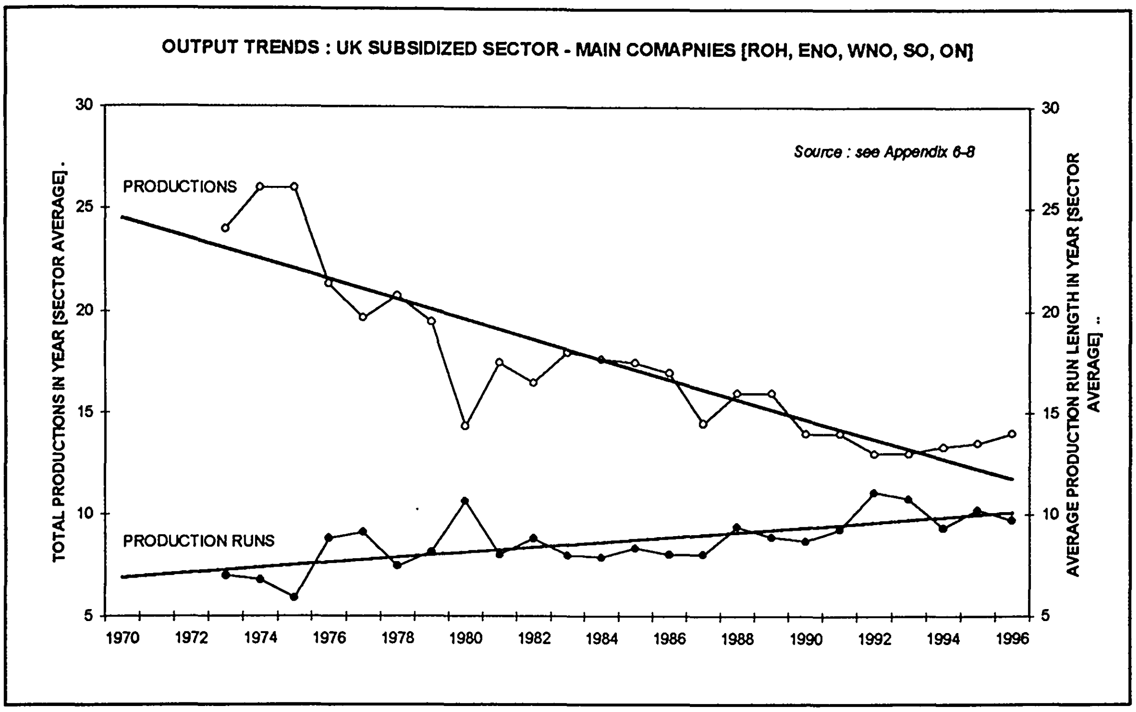


Figure 6-8 : *Trends in output of UK subsidized sector (by productions and production runs)*

The mechanism by which these economies of scale may result can be explained as follows:

a) a narrowing of the production portfolio, all things being equal, brings about: a reduction in set-up costs (fewer changes of production set); possible savings on overall scenery and workshop costs; and overall savings in wardrobe, rehearsal and administration costs (e.g. marketing literature and programmes).

b) a concomitant lengthening of the average production run increases the number of performances over which costs (including the aforementioned costs) may be recovered.

It is also feasible that there may be savings in guest artist fees, although much depends on contract and remuneration packages, as well as on the need for double casting. In theory there ought to be savings since on a simple price-volume basis, a longer production run better utilizes the guest artists contracted for that run. That is, every guest artist, whether conductor, designer or singer, has to learn the score, and that represents a set-up cost to the opera company and an opportunity cost to the guest artist (if he or she does not already know the work). This cost will be incurred, all things being equal, whether or not the production gets beyond dress rehearsal stage. In theory, the set-up cost to the opera company (and opportunity cost to the artist) represents the fixed cost element of a guest artist's contract : although it may never be explicitly identified as such by either the opera company or the artist's agent. The cost of the artist's appearances on each successive performance, or repetition, in the production run, represents a variable cost. Leaving technical details aside, it is clear that a production run lasting a single performance only is not going to utilize or spread the burden of the set-up cost to the same extent as a production run of, say, ten performances.

In practice, however, the situation as regards guest artist fees may well be very different, since: a) production runs cannot be extended to an infinite degree (singers become exhausted and double casting therefore becomes imperative); b) longer production runs are not necessarily attractive to all guest artists (if demand for guest artists exceeds supply, artists may prefer to pick and choose among potential contracts); and c) where an opera company operates in a fixed geographical market, there may not be sufficient demand for production runs of a given work above a certain length.

So, whilst we cannot establish with certainty the exact nature of the economies of scale which are likely to result from a narrowing of the yearly production portfolio, we can see that pursuit of such economies may have a major effect on the artistic output of the UK subsidized opera sector: as *opera value inflation* and the existence of *artistic value* paradigms (which set *financial value* input levels) tend to drive the value of investment in individual productions upwards, so the need to pursue economies of scale (cutting the number of productions and increasing production run length) becomes imperative. This reduces audience choice, and unless individual audience members are prepared to attend more than one performance of the same work within a season, implies a widening of the audience base.

4 : A universal drive towards greater financial intensity

A strong drive towards greater financial intensity is exhibited by each respective company in the survey (excepting Opera Restor'd, for which there is insufficient data). Between the 1970s and the 1990s there has, as a result, occurred a universal increase in real spend per performance i.e. an increase which includes our private sector comparator, GP. This is demonstrated in Figure 6-9, the summary taxonomy plot of sample companies which is introduced and discussed below.

Now movement within the taxonomy plot represents a change in intensity : a movement rightwards indicates an increase in financial intensity (more money spent in real terms per performance), whilst a movement upwards indicates an increase in labour intensity (more people required to produce one performance). Movement upwards also indicates increasing concentration - in this case an increase in the burden of overhead caused by wages and salaries. Overall, however, movement within the taxonomy plot is always the product of change in one or more of three factors or variables (turnover, employees, performances). This introduces complexity so that an increase in intensity expressing itself as a movement upwards *and* rightwards may be explained by more than one causal mechanism e.g. maintaining staff and cutting performances during periods of short-term financial crisis will produce the same result as employing more staff and spending more to produce the same number of performances. But whatever the causal mechanism, a movement upwards and/or rightwards always indicates an increase in intensity.

The measurement of intensity is important because it gives us an insight into the relationship, and the implications of the relationship, between *artistic value* and *financial* *value*, We demonstrate this in Table 6-4 by constructing a simple Boston matrix (for discussion of Boston Consulting Group models, see Johnston and Scholes (1984:343-7):

LABOUR INTENSITY
(scale of performances
in terms of human effort)

LOW VALUE HIGH SCALE	HIGH VALUE HIGH SCALE
LOW VALUE LOW SCALE	HIGH VALUE LOW SCALE

FINANCIAL INTENSITY
(value put into performances)

***Table 6-4** : Intensity matrix*

Now in the context of the matrix, labour intensity, or scale, equates to degree of establishment. That is, when a full time opera company becomes more labour intense, it makes, in effect, an investment in overheads (e.g. salaries) some of which may be in the form of fixed assets (e.g. purchase rather than lease of a theatre, purchase of workshops and offices). That is, the greater the investment in overhead (whether fixed or variable), the greater the degree of establishment. A company which does not invest in establishment or overhead in this way, we may term a *production* operation. An opera company conforming to the pure production model would typically work on a project basis, employing its labour on short-term contract and operating from a temporary physical base. A pure *establishment* company would work in the opposite way. Hence, we may refine our initial Boston matrix as follows (see Table 6-5):

LABOUR INTENSITY (scale of operation in terms of human effort)		
	LOW VALUE ESTABLISHMENT	HIGH VALUE ESTABLISHMENT
	LOW VALUE PRODUCTION	HIGH VALUE PRODUCTION
	FINANCIAL INTENSITY (value put into performances)	

***Table 6-5** : Establishment matrix*

The establishment matrix gives a relative measure of the cost of a *powerhouse* operation such as ROH. If we were to place GP (Glyndebourne Touring + Festival Opera) within the matrix, it would (because of relatively low overheads) occupy a position somewhere within the lower quadrants. Whereas, ROH would, as we shall see, occupy the upper right quadrant.

We can now proceed to construct and interpret our taxonomy of opera. Figure 6-9 (as introduced above) represents the summary taxonomy plot for all the opera companies examined in this study. Data points on the plot represent the average taxonomic position for each company during the stated decade (1970s, 1980s, 1990s).

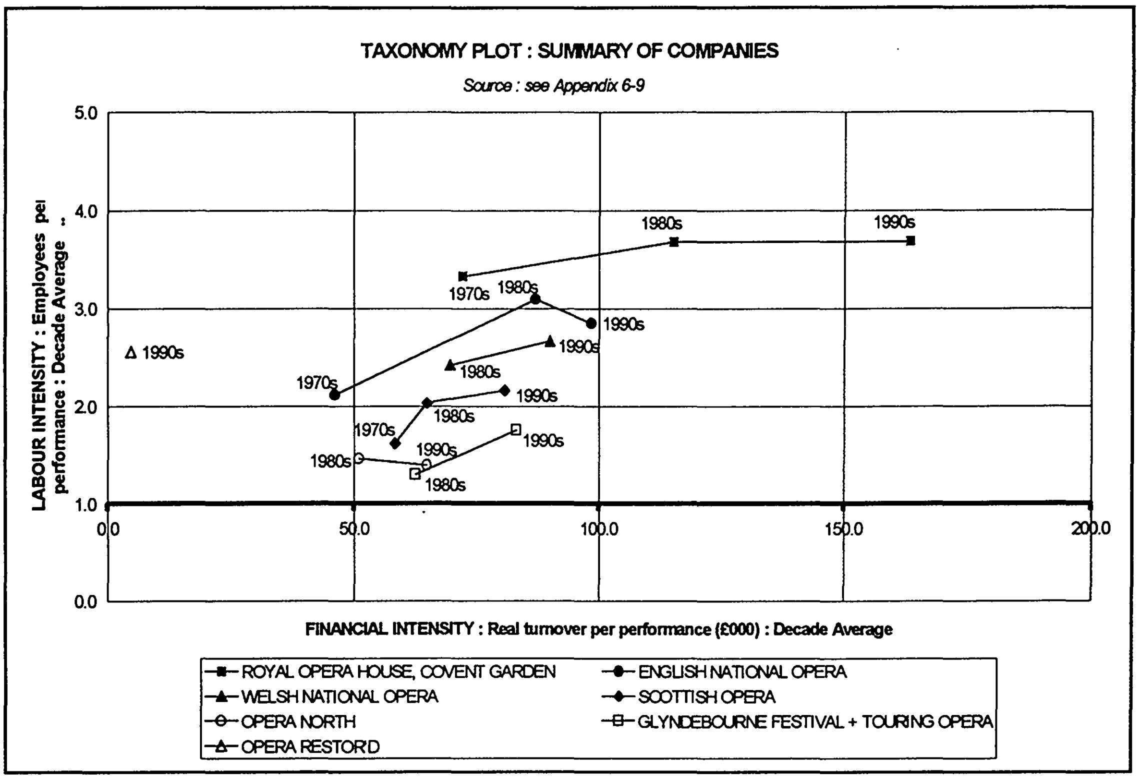


Figure 6-9 : Taxonomy plot : summary of companies

Now the rightwards drift demonstrated by each of the companies in the summary taxonomy (Figure 6-9) reflects the real rise in turnover which we have already identified. But because the taxonomy expresses spend per performance, it also gives a clear indication of intensity. The position of Opera Restor'd, as a comparator smallscale company, provides a useful calibration of scale: illustrating a different type of operation (high labour intensity and very low investment per performance).

Figure 6-10 shows how we can analyse this summary taxonomy plot in terms of the Boston matrix developed above.

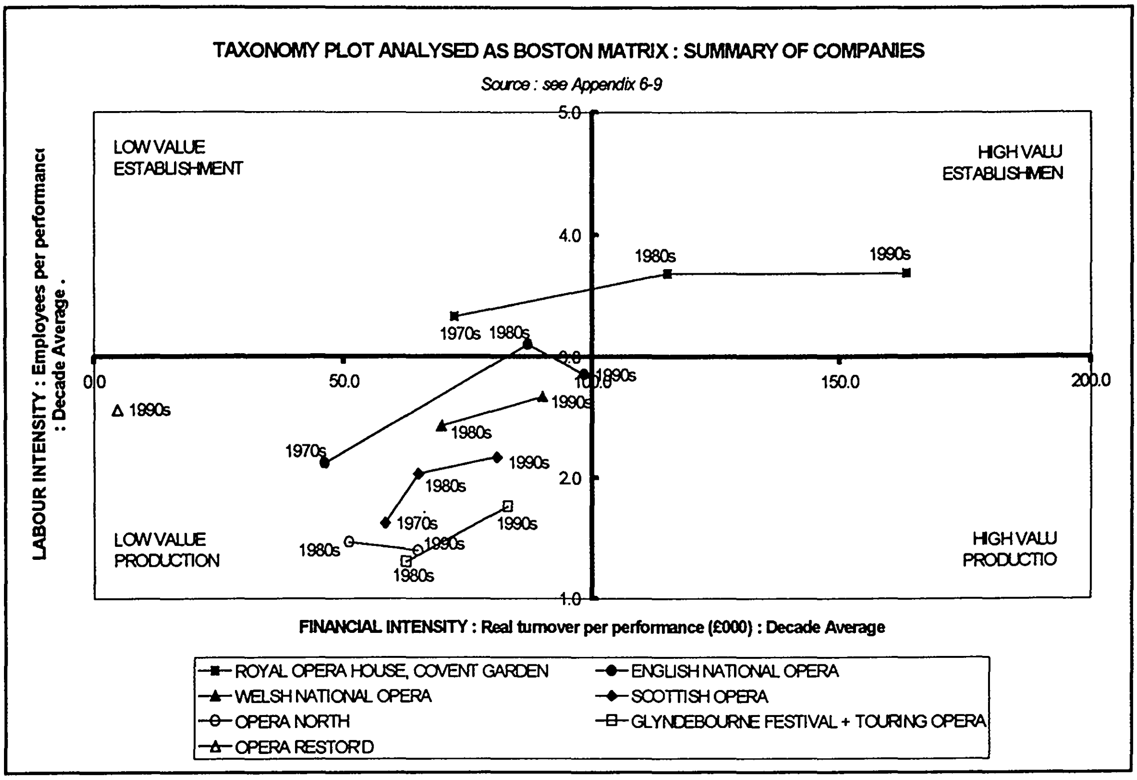


Figure 6-10 : Taxonomy plot analysed as Boston matrix : summary of companies

The greatest overall movement is exhibited by ROH and ENO respectively. This confirms a degree of differentiation in terms of investment and rate of intensification between these and the remaining subsidized sector members. The taxonomy plot summary here confirms the results presented in Figure 6-8 and demonstrates, again, the persistence of the *powerhouse* model (see finding 2 and discussion in chapter 3).

With the exception of ENO (which disaggregated its northern division in the early 1980s) and ON (the result of that disaggregation), a universal intensification in terms of labour input is demonstrated in the plot. Overall, however, this labour intensification is insignificant compared with the increase in financial intensity or rightwards drive towards higher value bases of operation.

It is difficult to establish at this stage why there should exist such a strong movement towards greater financial intensity and therefore greater establishment. There is indeed a marked preference towards investment in overhead. Now it may be that in the context of scarce resources (subsidy, sponsorship, and box office income are all subject to volatility) that investment in establishment confirms the full-time presence of the opera company, thereby raising the effective cost of its failure in terms of *externalities* (wider social benefits). For instance, the more full-time employees, the greater the physical establishment in terms of office, workshop, storage and theatre space owned or at least occupied on long-term lease, the more tangible the company's existence. This increased sense of security, in effect, gives the opera company greater leverage on its public funders. The exception here is Glyndebourne Productions, which, in proportionate terms, receives such a small amount of public subsidy, that the investment in establishment, whilst it may still represent an investment in security, is likely to have been pursued for other reasons.

5 : The increase in financial intensity of the UK subsidized sector represents a value shift which demonstrates the existence of pre-agreed public funding parities

The UK subsidized sector, when considered in aggregate, exhibits an increase in financial intensity between the 1980s and 1990s. Because the relative taxonomic positions of the companies within the sector remain unchanged during this period of financial intensification, the financial intensification across the sector as a whole expresses itself as a rightward, but not upward, value or intensity shift. This value shift indicates not only a high degree of homogeneity within the sector, but suggests the influence of a centralised and fixed infrastructure i.e. the existence of pre-agreed public funding parities. We can demonstrate this finding by reference to the summary taxonomy plot (Figure 6-9).

Perhaps the most interesting feature of the summary taxonomy plot (presented earlier in Figure 6-9) is the clustering of activity which can be seen in the two quadrants defined by the £50,000-£100,000 turnover per performance and 1-3 employees per performance range. Again we might ask whether this reflects a *natural* or optimal level for operation of a *powerhouse follower* opera company? (see finding 2). By considering the companies of the subsidized sector as a whole (excluding ON as a late and not fully established entrant in the 1980s) we can compare the behaviour of the sector in aggregate in the 1980s with that of the 1990s, and so seek to explain this clustering. These results are presented in Figure 6-11.

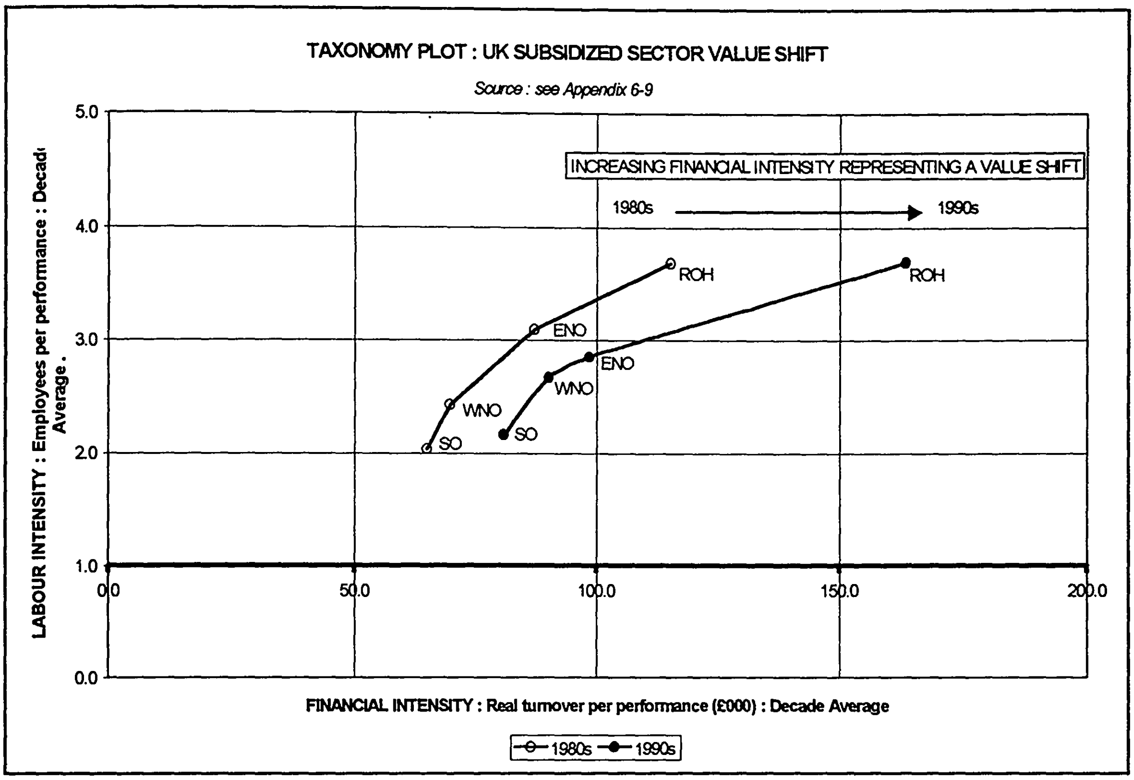


Figure 6-11 : *Taxonomy plot : UK subsidized sector value shift*

The first striking feature demonstrated in Figure 6-11 is that the four sector representatives exhibit a non-random distribution: they appear to lie on what we might term an *intensity* or *value curve*. The curve slopes upwards and rightwards indicating that an increase in financial intensity is matched to some degree by an increase in labour intensity. The curve therefore suggests that there is an implied route to *powerhouse* position (see chapter 3 for discussion). However, only by plotting the 1990s data do we see the full significance of the data: the whole curve shifts rightwards over time, indicating a sector-wide increase in financial intensity in which the relative positions of the sector members remain relatively unchanged. This confirms the existence of pre-agreed public funding parities, although, interestingly, movement by ROH does suggest that the *powerhouse* itself has been permitted to accelerate away.

5a : Evidence of fixed infrastructure and non-competitive behaviour suggests persistence of service-provision model

We can infer from the lack of significant differentiation (absence of breakout from the *intensity* or *value curve*) that UK subsidized sector members are not in real competition with one another, which means that they cannot be in real *artistic value* competition. Indeed, the strong homogeneity of the sector suggests that sector members, in addition to following a *powerhouse driver*, are operating as part of a relatively fixed infrastructure. Such a fixed infrastructure would result where some degree of centralized control or central influence is evident. In this case, the shifting curve suggests response to a single influence within the environment, such as government policy (here delivered via the mechanism of the Arts Council of Great Britain). This non-competitive behaviour suggests that the sector is also operating according to the *public service provision* model (see discussion in chapter 3). Indeed, the sector behaviour observed in 6-11 is too unified to be explained in any other way.

For instance, Figure 6-11 shows that the *powerhouse* hierarchy is maintained, but that the *powerhouse followers*, ENO, WNO and SO, have by the 1990s grown more closely together in terms of financial and labour intensity. This tends to suggest that the sector is being influenced by a centralised opera subsidy policy in which the goal of distributive efficiency (provision of a cultural service, with *access for all*; see Peacock 1994) supervenes any value goal (creation and maximization of *artistic value* through support of artistic innovation) (for discussion see chapter 7). This must be the case, since any substantive artistic innovation (e.g. redefining the concept of opera) would only result from a major change in operational model i.e. breakout from the *intensity* or *value curve*).

That the goal of *public service provision* supervenes the primary goal of the *powerhouse* model (which is to drive quality through the sector) then, may explain why the *powerhouse* has been allowed to accelerate away, and why the *powerhouse followers* appear to operate at a common level of turnover and intensity, which is to say: not so much at an optimal level for the creation and maximization of *artistic value* (see finding 2) but at an optimal level for the provision of an existing opera service in which *artistic value* is treated as a given (i.e. as an exogenous variable).

7. LONG-RUN BEHAVIOUR OF INDIVIDUAL OPERA COMPANIES [1976-95]

7.1 Introduction

To date, no comparable long-run study of this nature has been undertaken in the context of opera. Presentation of results by individual company therefore affords an important opportunity not only to discover evidence of individual company strategies, but to assess management performance, and test for the influence of, or isolation from, the environment.

In this section, the taxonomy plot results are presented for each sample company in turn (excepting Opera Restor'd which was earlier introduced for comparative purposes only). Interpretation of plot data is aided by reference to financial data extracted from the published annual reports and accounts (Appendices section 7), and from such supporting qualitative data as exists within these published accounts (e.g. Chairmans' reports, notes to the accounts).

7.2 Scottish Opera

Taxonomy plot data for SO is presented in Appendix 7-1. Supporting financial data, as extracted from the published accounts is presented in Appendix 7-2.

Note, due to the adoption of minimal reporting standards by SO over the period 1969-75, there is insufficient data to construct the taxonomy plot for these years.

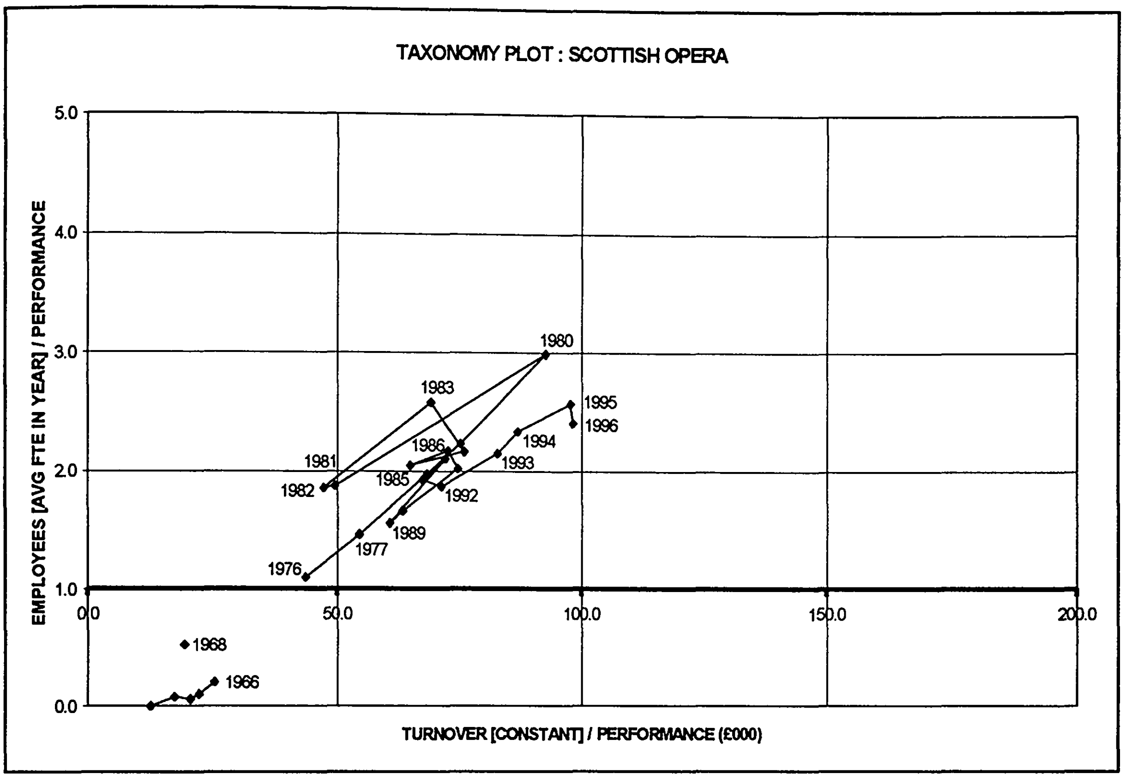


Figure 7-1 : Taxonomy plot : Scottish Opera

1 : Evidence of an immediate post-incorporation drive towards intensification and expansion

SO was incorporated in 1962. During the 1960s, the period of early establishment of SO, there is evidence of an immediate desire to change the operational basis of the company by increasing labour and financial intensity, and by expansion of output.

Whilst SO began, in terms of our taxonomy, as a low value production outfit (see Figure 6-10), evidence suggests that from the outset, management equated permanence (i.e. greater establishment of the company) with stability (viz SO ARA 1964-69 in particular). In the immediate post-incorporation years, the need to establish the full-time presence of the company quickly became the overriding goal.

Thus, whilst the start-up phase of SO can be seen to be one of relatively low intensity and part-time activity, it is clear that management did not believe this to provide a sustainable basis of operation. This is worth exploring.

Now although the initial part-time basis of the company's activities, together with a strong reliance on voluntary effort in the management function, produced a low (fixed) overhead to variable cost ratio i.e. flexibility, this flexibility was not considered a virtue. There are two possible explanations.

Firstly, in the relatively stable, mass market environment of the 1960s (see discussion in Chapter 5) flexibility, that is the ability to adapt in the short-term to sudden or major changes in the environment, was not considered a priority. It was certainly not an integral part of the management canon of the time (see, for instance Kotler 1984). Secondly, and more importantly, in the context of a non-profit organisation, all things being equal, it is difficult for managers themselves to equate confidence in the future with an uncertain salary income. Indeed, maintenance of the non-profit, low value production outfit (such as represented by SO in the 1960s) demands an entrepreneurial and tactical approach to the future. In the absence of profits and special external incentives, it cannot be expected that managers will forego the security of a permanent salaried post for the relative risk and insecurity of a part-time, flexible operation (in which management may be no more secure than the casual labour it employs or the contractors it engages).

The question here is : should the future of opera as an artform be premised upon the trade-off which a few key individuals may be required to make between what is best for the company and what is best for their own security? That is, the future adaptability of the organisation versus the personal financial security of the management function. Is it right that the whole operational basis of an opera company should effectively be decided by such a simple *financial value* issue? Is there perhaps a role for government at this delicate stage in an opera company's genesis?

One further observation may be made here regarding the relationship between expansion of output and labour intensification. Although complex, there is a relationship between level of output (number of performances) and the need for full-time management input. The question is, which is driving which at any one time? That is, does the need for increased artistic output drive the need to invest in overhead (management salaries) or does the need to justify management overhead (*financial value*) drive the increase in artistic output; and what are the consequences for *artistic value*?

2 : Evidence of early overexpansion

Within five years of its inaugural season in 1962, SO was in financial difficulty as the result of overexpansion. To counter this crisis, emergency or rescue funding was provided from public sources (in the form of special deficit grants) in both 1967 and 1968 (Figure 7-3).

Now, in the context of this study, we use the term *expansion* to mean expansion of output (i.e. increase in the number of performances per annum), and *overexpansion* to mean too fast an increase in output relative to the underlying financial strength of the expanding organisation.

The causal factors underlying this early overexpansion at SO are outlined in the Chairman's report for the year end 1966. Briefly, these can be identified as : fall in box office income, increase in establishment costs (i.e. fixed overheads such as salaries) and mismanagement of production costs (specifically, the failure to institute an adequate budgeting mechanism):

> *Unfortunately neither Falstaff nor Walküre drew capacity audiences and box office returns were considerably lower than in 1965. The company also ran into financial difficulties owing to the stage reached in developing a permanent company with a full time staff, and particularly the expansion of our own workshop and costumes department at Stobcross House. The production costs of this year's new works, and particularly of the wardrobe department, considerably exceeded the estimates, and as the difficulty emerged only a short interval before the season these costs were unavoidable... The directors have anxiously considered ways of avoiding increasing losses while still attempting the very high artistic standards now expected of the company, and have approached the Corporations of Edinburgh and Glasgow and the Scottish Committee of the Arts Council for additional help to reduce this burden, and for an assurance of future grants to enable the company to plan ahead with confidence. At the same time steps are being taken to exercise closer control over ordering and spending and to put work in hand as far as practicable at a much earlier date in the year to avoid such an emergency recurring* (SO ARA 1966).

The overexpansion itself (i.e. increase in output post-incorporation to the late 1960s) can be seen in Figure 7-2. The consequences of that overexpansion (larger current deficits to 1966 and an overall increase in accumulated deficit) can be seen in 7-3.

There are some other observations we may make regarding this overexpansion. Firstly, it appears to have been fuelled by an accelerating reliance on public sources of income. Whilst in the inaugural season (1963a) the company's public income factor was only 22%, by 1966 it had passed the 50% threshold (at 57%) (see Appendix 7-2). Furthermore, there is evidence of a curious trade-off between *artistic value* and *financial value* (which can be seen in the 1965 balance sheet) which suggests that management were over optimistic. Funds which could have been invested directly into the transformation process itself i.e. managed in such a way as to provide a future income stream for the production of opera (i.e. *artistic value*) were instead effectively gambled away on a poorly timed and expensive consultancy exercise, the results of which showed that the company was not yet in a position to institute a successful fundraising campaign (and thereby secure a future income stream for the production of opera). The exact mechanics of this trade-off are worth exploring.

During the financial year in question (1965), a special fund (Falcon Fund) was established at a value of £1400 current prices (over £12,500 in constant terms). This fund (and we do not know its origin) represented 5% of turnover for the year. Now, instead of investing the Falcon Fund to provide future income (e.g. by creating a special reserve), it was used to finance a fundraising survey costing £1300, leaving a balance item of only £100 (all current prices). By effectively wiping out the fund in this way, not only was a future income stream forgone (the income stream which would have resulted from its designation as a reserve) but the fundraising plans themselves, in line with the recommendations of the survey report, were dropped. The result of this exercise (and we must assume there were no conditions attached to the use of the fund) was a net benefit of zero value to the company. In the event, an endowment fund (equivalent to the kind of special reserve which might have been set up) was finally inaugurated in 1970, some five years later.

If we assume that no special conditions were attached to use of the fund (i.e. that it had not been gifted or set-up precisely for the sole purpose of conducting a fundraising survey) then it would have been better to have spent the funds directly on a fundraising campaign. Either this was not possible at the time, or management lacked appropriate fundraising skills.

3 : Evidence of constraints on artistic value freedom resulting from investment in capacity and fixed asset structure

The decision to invest in capacity (purchase of the Theatre Royal in 1974) and attendant fixed asset structure (e.g. creation of an inhouse orchestra) acted to constrain repertoire planning at SO and thereby limit the company's *artistic value* freedom. This can be demonstrated as follows:

The years 1976-80 are characterized by sustained intensification (Figure 7-1) coupled with a rapid deepening of accumulated deficit (Figure 7-3). Now, this deficit, or structural burden of debt, was in large part the result of special capital investment (the purchase and restoration of the Theatre Royal in 1974). However, as can be seen from Figure 7-3, SO had been accumulating deficit from its earliest days, so the purchase of the theatre merely added to the problems of SO (group). This, together with continued pressure to maintain output or performances (at a level sufficient to properly utilize the new capacity afforded by the theatre) quickly precipitated a major financial crisis.

Figure 7-2 demonstrates the beginnings of this crisis as early as 1977, when a reduction in performances (instituted as a cost-cutting exercise) resulted in lower utilization of the theatre.

In this scenario (i.e. working at undercapacity), short-term cost-cutting results in under-recovery of fixed overhead: effectively forcing costs to rise in the medium- to longer-term. At this point, the *financial value* demands of the theatre start to set the *artistic value* agenda for the opera company : its repertoire planning becomes a function of financial constraint.

By 1980 SO had arrived at this point and the resultant conflicting demands (need to reduce performances to cut costs in the short-term, coupled with the need to expand activities in order to utilize capacity) came to a head. Two contradictory actions were taken. Firstly, performances were cut by almost 50% relative to the first Theatre Royal season after restoration (1976) i.e. from 122 to 68 performances. This was done even though, in the previous year: ... *The Theatre* [Royal] *despite a better than ever response to the Scottish Opera Subscription Season, 90% average capacity for evening performances, and visits from other companies, still produced a loss in excess of £60,000* [£143,000 in constant terms] (SO ARA 1979). Secondly, an inhouse orchestra was formed, adding again to staffing levels and associated overheads (which it had already been attempted to reduce).

Note, the creation of an inhouse orchestra adds, significantly, a fixed or semi-variable element to overhead (since salaries must be paid regardless of whether performances take place or not). This action, although it serves to further establish the opera company, also builds in inflexibility. In the case of SO, the creation of an inhouse band at this stage, merely served to augment the financial difficulties of the company and thereby constrain its *artistic value* choices to an even greater degree (i.e. works must be chosen which utilize the now fixed orchestral forces of the company). In this scenario, there is no gain from mounting a chamber opera, or any repertoire requiring significantly less than the full complement of the inhouse orchestra.

As a result, by 1980 the accumulated deficit reached its worst level in the history of the company (£893,000 in constant terms). In effect, all significant *artistic value* decisions taken by SO were tied to the need to manage its structural burden of debt (i.e. to alleviate the deficit crisis which had been precipitated by an ambitious investment in capacity and fixed asset structure). The complexity of the situation facing the company is well illustrated by the following extract from the Chairman's statement 1983:

> *We continue as proud owners of the Theatre Royal, Glasgow. In spite of the fact that its success compares most favourably with theatres in other cities the privilege of ownership costs us some £150,000 a year* [£234,000 in constant terms]... *Having provided the funds and initiative to renovate this lovely theatre we must now obtain relief* [financial value input] *from this annual burden on funds given to us for the performance of opera* [i.e. financial value input given for the production of opera, not the maintenance of a theatre] (SO ARA 1983).

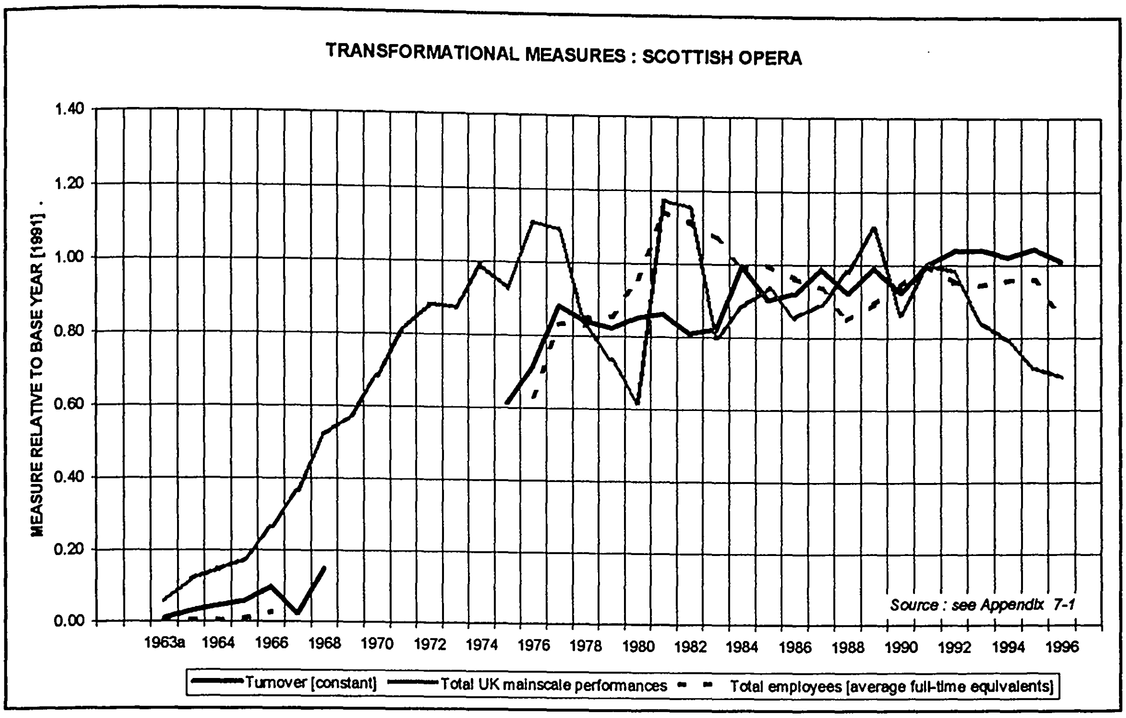


Figure 7-2 : Transformational measures : Scottish Opera

4 : Change in the environment may promote diseconomies of scale where investment in establishment has been made

Evidence suggests that the constraints imposed by previous investment in establishment and orchestra overhead (i.e. fixed asset structure), inhibited the ability of SO to withstand changes in the environment in the early 1980s.

The years 1980-83 were years of crisis for SO. Precipitated by the deficit crisis of 1980 (discussed under finding 3 above) and by change in the environment (discussed below) the 1981 and 1982 crisis years, as can be seen from Figure 7-1, involved a dramatic attempt to retrench or de-intensify the activities of the company. The overall aim was to reduce the accumulated deficit and direct the company towards a more stable or sustainable basis of operation (viz Chairman's statements in SO ARA 1980 and 1983).

However, at the same time, the environment was changing. During the early Thatcher years, and particularly as a result of the Medium Term Financial Strategy (announced

1980), government expenditure was cut (see Figure 5-5). Spending on recreational and cultural affairs fell sharply (Figure 5-5) and the impact of this was felt by SO:

> *We are at present in discussion with the Scottish Arts Council on the appropriate distribution and type of performances in Scotland for a time when the prospects of any increase in the real value of our grant are negligible while costs continue to rise* (SO ARA 1981).

Furthermore, the UK economy was also in deep recession (Figure 5-1) and whilst we do not have sufficient data (see Appendix 7-2) it is likely that a squeeze on box office income may also have been felt by the company at this time.

The two years of short-term firefighting (1981 and 1982) then, were necessitated by a need, firstly, to control the accumulated deficit and, secondly, to respond to adverse changes in the environment.

However, burdened by debt and experiencing a squeeze on income (public source income, if not private source also), the most logical option for SO management in the short-term was not only to reduce overheads, but to increase the rate of recovery of those overheads which would remain after any cuts were instituted. That is to say: reduce the spread of assets and drive those assets which remain all the harder. Evidence suggests that these are exactly the tactics which were followed.

For instance, during 1981 and 1982 a small reduction in staffing was undertaken (involving redundancies and termination of contracts). Significantly, the newly formed house orchestra was almost immediately affected, although it was not axed altogether.

In addition, these staffing reductions were coupled with a sudden increase in output (performances). In fact, at 1981, at 129 performances, output reached its highest level since incorporation of the company (see Figure 7-2).

This dual action appears contradictory, since an increase in output would be expected to better justify maintenance of the orchestra at its full complement. But this is the point at which certain diseconomies of scale become manifest. This is worth exploring.

The situation in these crisis years is described in the Chairman's statement (1981) as placing the company *on a knife edge of risk in maintaining satisfactory artistic standards.* However, looking at the taxonomy data, it would appear that the real difficulty in these years was one of maintaining satisfactory overhead recovery (a *financial value,* not an *artistic value* issue).

The company during these two years (1981-82) is not only at its most labour intense, but, because of an apparently erratic search for the optimum level of output since acquisition of the theatre (resulting in what appears to be a desperate attempt to maximize capacity utilization in 1981 and 1982) real expenditure per performance almost halves in the space of a year. Real turnover per performance, for instance, is around £93,000 in 1980 (the highest level in the company's history, not approached again until the mid 1990s) and by the next year, 1981, it drops 47% to £49,000. This outcome, this *knife edge of risk* threatening the *artistic value* standards of the company is, then, the result of *financial value* choices made by the company in previous years and not, as implied in the Chairman's statements (1981 and 1982) merely because of *economic recession* (SO ARA 1981) and resultant failure or *restraint* (SO ARA 1982) of national and public funders. Significantly, the Chairman's statement for 1982 reveals that the company's management think that there exists an appropriate *normal* or optimal scale of operations and that this *normal* scale is represented by the 1982 level (127 performances). It would be interesting future work to test whether criticism during 1981 and 1982 reflected the *failure* although this would not prove that audiences as a whole (independently of critics) perceived any erosion of *artistic value.*

The finding confirms, however, that the company, and therefore its *artistic value* goals, are constrained by its fixed asset structure i.e. the burden of owning a theatre. The particular financial economies of scale which are introduced by the ownership of such an asset (e.g. the need to properly utilize the theatre) will tend to create a limited set of *artistic value* options (ways in which these financial objectives may be met). So, from the point of view of producers and consumers of opera, *artistic value* opportunities themselves become constrained. Moreoever, the greater the financial intensity of the company, the greater the risk associated with its *artistic value* options. This is because the whole organisation itself may be lost if these critical financial economies of scale are not achieved.

It is worth noting that the description of the staffing reduction undertaken, as given in the Chairman's statement (1981), is not reflected in the actual staffing level reported in the 1981 notes to the accounts. This is because numbers reflect the average full-time equivalents (AVG FTE) and not a headcount at the year-end. Nevertheless, since the total employees at 1981 are not only at their highest level since inauguration of the company, but only show a reduction of 6 (AVG FTE) staff by 1982 (by which time any real reduction during the financial year ending 1981 would be visible), it is likely that these cuts have been *talked up* in the Chairman's statements for political purposes (influencing or pressuring public funders). Again this seems to indicate an attempt to ratchet up the level of public subsidy awarded to the company (here by clothing the issue in moral terms).

5 : Evidence of overtrading and long-term disequilibrium

Despite emerging from the crisis years of the early 1980s with its accumulated deficit eliminated (via emergency public funding) SO was unable to maintain recovery of its own accord (see Figure 7-3 and Appendix 7-15). Evidence suggests that the short-run tactics, which had seen the company through this crisis period, did not translate into an adequate long-run strategy and that from 1983 a period of overtrading (operation of the company beyond the capacity of its working capital) and long-term disequilibrium ensued.

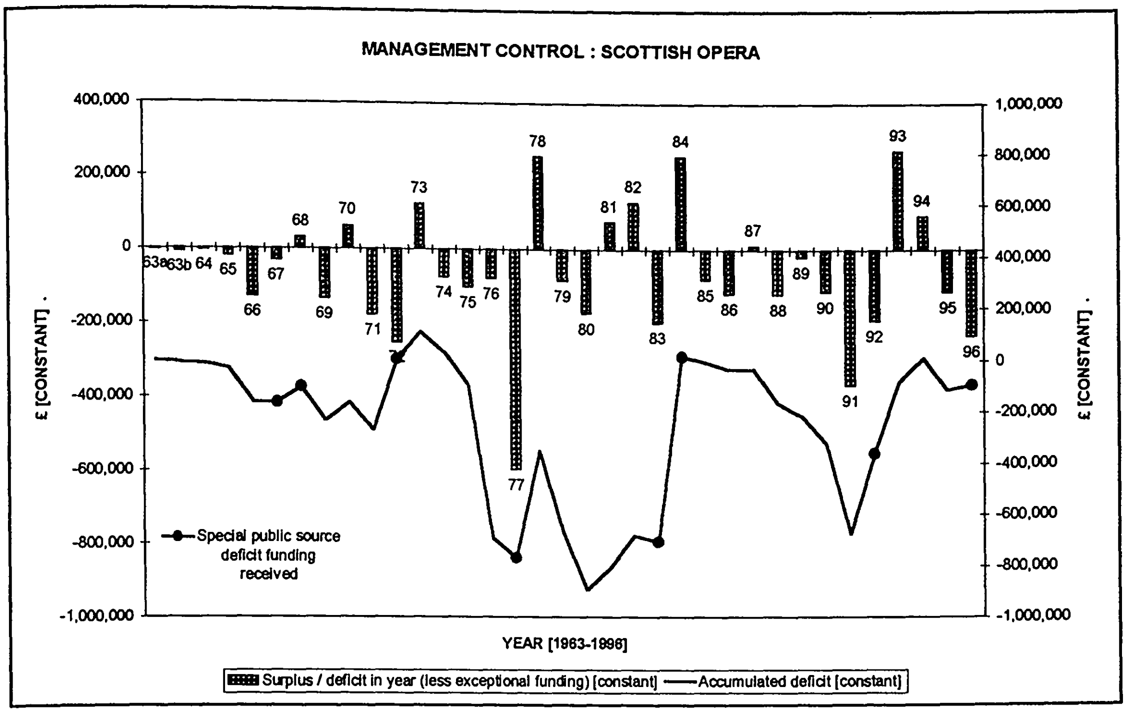


Figure 7-3 : Management control : Scottish Opera

Whilst 1983 was perhaps a year of exceptional crisis for SO (delay in production of internal management accounts led to complete failure of the company's budgeting system, not aided by the precipitate departure of the financial controller who was also acting general administrator) the basic cost control tactics of 1981 and 1982 remained in place. For instance:

> *Our chorus now stands at 34 full time members, our orchestra at 45. Although slightly increased since last year, this does not represent the degree of restoration to full strength which we had promised ourselves, and still falls well short of levels in other national opera companies* (SO ARA 1983).

As outlined under finding 4, this has the effect of controlling the portfolio of assets (i.e. constraining its size or spread and its total cost or value); and, when output is increased, it has the effect of driving that portfolio all the harder (i.e. increasing the rate of recovery of its cost, thereby deriving greater benefit or utility from its contents).

However, in the long-run, tactics such as these may have the effect, not of controlling costs, but merely of postponing them. Indeed, it can be seen from the above quote, that it was intended by SO management to increase the size of the orchestra at some future point. Clearly an orchestra is a complex operational unit, there is no such thing as a standard orchestra and much depends on choice of repertoire. Indeed, the relationship between cost and *artistic value* utility and *financial value* utility (the cost - benefit relation) in the context of an opera orchestra is probably impossible to define with any precision. However, it is clear that SO management felt that this *asset* (the inhouse orchestra) was not, at 45 member strength, operating in an optimal way and would have to be augmented.

Aside from the issue of postponed costs, SO was, in 1983, still facing a squeeze on income. Again, there is insufficient data to comment on box office performance, but we know that public revenue funding, for instance, was still constrained. Faced with the need to maintain adequate capacity utilisation of the Theatre Royal and with the need to maintain touring committments (as required by public funders) SO now experienced the debilitating effects of overtrading:

> *The fundamental problem facing Scottish Opera is that over the last few years the funding available has not been sufficient to cover the costs of achieving the number and spread of performances throughout Scotland that we and the Scottish Arts Council would like; the balance sheet also reveals that while the overall position is underpinned by the value of the Theatre Royal there is a serious imbalance in working capital terms and the company has become substantially undercapitalised* (SO ARA 1983).

In other words, having invested in fixed assets (the Theatre Royal, the inhouse orchestra etc) the company, in 1983, found itself constrained by a lack of current assets (working capital) with which to maintain operations. Undercapitalised in this way, SO found itself equipped with the means to produce opera (theatre, orchestra etc) but without the funds to utilize these means. The situation is analogous to owning a car, but not being able to afford the fuel to run it.

After 1983, then, a gradual paring away of staff numbers is evident (almost 30 employees are shed between 1983 and 1987). At the same time, it would appear that the company had been forced (by cashflow troubles) to work at a level below that which it considered desirable or optimal from a capacity utilization point of view (an average 96 performances per year in the 1983-87 phase as opposed to an average 113 per year in the years immediately following opening of the Theatre Royal (1974-77). But it is evident from Figure 7-2 that cutting staff as a means of controlling overheads is not sufficient in the face of a capacity utilisation problem since in the long-run real costs (here measured by proxy as turnover) are still rising.

Again, it must not be forgotten that these problems arise as a direct consequence of SO's decision to purchase the Theatre Royal in 1974. This is the underlying cause of the company's overtrading. The fault cannot simply be laid at the feet of public funders.

Here we must make the important observation that the taxpayer funding the theatre-owning opera company suffers, in effect, a double blow, since, in the face of change in the environment, not only does the company experience difficulty in delivering *artistic value* for money, but it may also use the problem of overtrading, which is a problem of its own making, to ratchet up (albeit with limited success) the real value of its public subsidy award. It is as though the opera company operates a moral lever: complaining that it cannot operate efficiently (at some desired level which best utilizes capacity) without a more generous grant from its public funders.

Two questions always remain unaddressed in this scenario: a) whether there is sufficient demand for the installed capacity (i.e. if the desired operational level or number of opera performances required to best utilize the theatre is reached, will there be sufficient demand?); and b) whether there might not be value in changing the operational model i.e. renting as opposed to owning a theatre or other suitable venue?

It is also interesting that the company's public income factor begins to change for the first time since the mid 1970s. This change, however, only occurs from 1985, after it becomes apparent that public funding cannot be ratchetted up to the necessary levels (despite emergency deficit funding received in 1983 and 1984). Thus, although the public income factor settled at a range between 65-70% from 1978 to 1984, it shifts downwards, settling between 55-63% from 1985 to 1990 (see Appendix 7-2). This reflects a conscious effort by the company to find the working capital it desperately requires from alternative sources.

6 : Evidence that installed capacity inhibits artistic value experimentation and innovation

There is evidence to suggest that during the years of overtrading and disequilibrium experienced by SO in the mid to late 1980s, attempts to innovate and to experiment with the company's *artistic value* output were inhibited by the existence of installed capacity (i.e. ownership of the Theatre Royal).

After receiving substantial emergency funding in 1984 (£1.2 million in constant terms, in part as a special deficit grant, and in part as a grant to fund the capital shortfall remaining on acquisition and restoration of the theatre a decade earlier) SO, it seems, felt confident enough to experiment with its *artistic value* output. Significant production innovations were suddenly introduced:

> *Certain of our productions during the past season have been seen to be controversial by some of our strongest supporters in the audience, and this must make us all consider the direction of our artistic policy. If opera, where so much of the best repertoire dates from the nineteenth century, is not to stagnate, then inevitably the repertoire must include new ideas and new works. At the same time, if the style of opera or production does not attract audiences, the company will soon cease to flourish* (SO ARA 1985).

Specifically, there are two issues here. One : any alteration to the service offering (i.e. any alteration of *artistic value* via production or performance style innovations etc) will affect box office income (the outcome may be positive, negative, or neutral). Two : because of this potential impact on box office income, alteration of the service offering during times of particular financial difficulty is highly risky.

For any theatre-owning company to survive in a climate of cash constraint, the first priority must be to maximize capacity utilization (as discussed above). It is imperative, therefore, that change in the service offering is made only when the company is in a position to afford the risk.

It has to be recognised that installed capacity limits the affordability of such experimentation because installed capacity creates a core audience (those who regularly attend the venue). The loyalty of a core audience is not to be gambled with.

Indeed, to make a meaningful assessment of risk in this context demands knowledge: the company must have adequate knowledge of the demand preferences (the needs and wants) of its core audience. Without this knowledge, the expected impact of artistic experimentation or innovation on box office income cannot be easily judged.

There is a very serious point here: one which is often overlooked. A company cannot bring in *new* audiences to an existing or regular venue without first increasing output. Unless there is an increase in output, any experimentation which does occur will merely bring about a substitution of new audiences for old. In this scenario, the company may claim to have developed a new audience, but total audience figures will remain the same, and, all things being equal, the impact on box office income will be neutral.

7 : Adoption of a mass marketing approach to artistic value indicates management perception of the need to cater for the tastes of the company's installed capacity audience

There is clear evidence that SO management, pressured by the need to maximize utilisation of the company's installed capacity (the Theatre Royal), were forced to adopt a mass marketing approach to *artistic value.* Catering for as broad a range of tastes as possible was seen as the best way to keep the Theatre Royal audience on board, and thus avoid any further capacity utilisation problems:

> *The Board keeps closely in touch with the artistic policy and direction of the company and have confidence in the artistic team. 1985/86 is the first season for some years for which the financial situation has allowed reasonable artistic planning and should, I believe, provide an*

> *interesting and varied repertoire with a mixture of styles and production which should provide a good balance of interest, both to those who like the traditional styles of opera, and those who are attracted to newer works, and innovative interpretations* (SO ARA 1985).

This mass marketing approach (i.e. catering for as broad a range of tastes as possible) in effect acts as a constraint on artistic freedom. Whilst the company may have wished to develop artistic strength in a particular direction (e.g. contemporary opera), a direction which might better exploit the existing strengths of its artistic team, it could not. This provides evidence, again, that in the face of a capacity utilisation problem, repertoire planning (i.e. artistic freedom) becomes a function of financial constraint which is internally imposed.

8 : Failure of management control and lack of long-term strategy

Evidence shows that since the late 1970s a *boom and bust* approach to management control has become established at SO. This indicates a failure of management control. Specifically, it suggests that management has failed to develop or follow any single, coherent long-term strategy for the company.

A company showing *boom and bust* behaviour will typically follow a repeating cycle of crisis and recovery in the short- to medium-term. The distinguishing feature of the cycle is the non-sustainability of the recovery phase: limiting factors encountered during recovery inevitably trigger fresh collapse.

Whilst the causal factors underlying such behaviour may be complex, it nevertheless indicates a preoccupation with short-term goals, and indeed, the instability resulting from *boom and bust* behaviour precludes any possibility of long-term strategic planning. The company can only break out of the cycle if the causal factors of the instability can be properly addressed. Significantly, whether or not these causal factors exist in the external environment (e.g. high cost of capital) or are internal to the company (e.g. failure of budgeting mechanisms) it is the responsibility of management to take control of the situation and make the requisite changes to management style or company strategy where it is possible to do so.

Often, *boom and bust* behaviour results from lack of proportional feedback control. Expansion occurs at a *flat-out* rate until *bust* is reached, when the reverse process (collapse and retrenchment) is engaged. Whilst this provides a good mechanism for the thermostat, for instance, when applied to an organisation, it produces instability. The question here is: what is the source of this feedback in the case of SO?

Now the *boom and bust* behaviour of SO can be seen from Figure 7-4 (in conjunction with figure 7-3). From 1977 a period of *bust* (encompassing the crisis years of the early 1980s) is terminated by emergency public funding in 1983 and 1984. During these years management's main priority is control of the accumulated deficit.

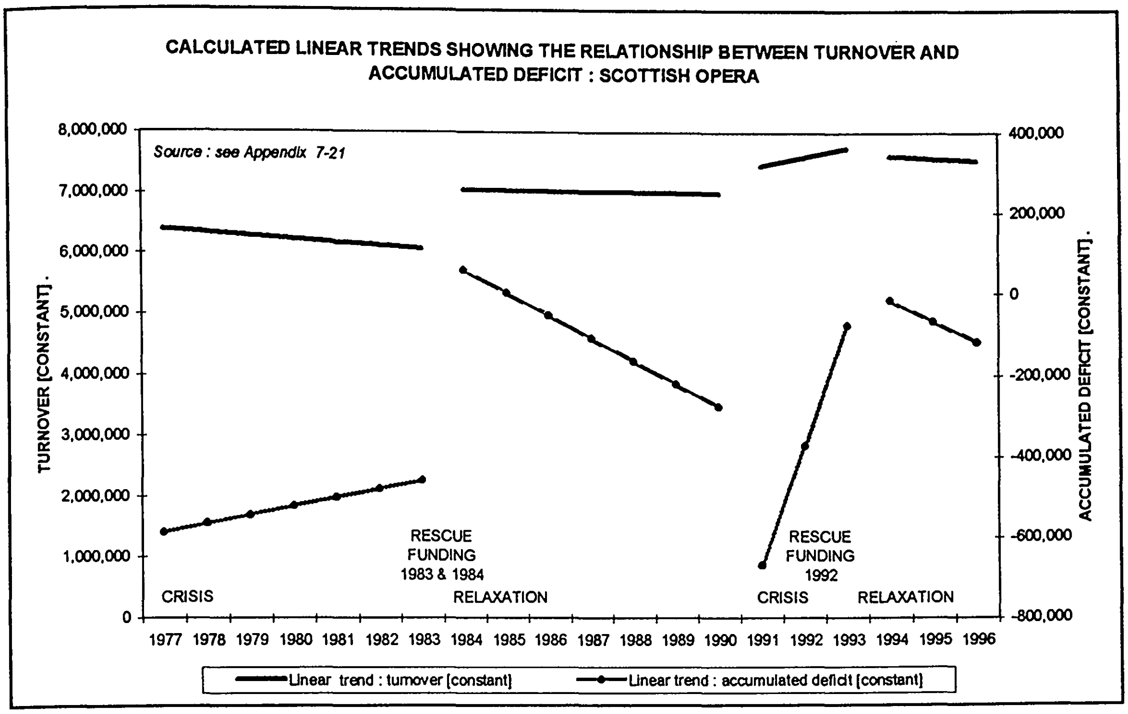


Figure 7-4 : *Relationship between turnover and accumulated deficit : Scottish Opera*

A *boom* phase begins in 1984 (immediately after rescue) as management relax and begin to let accumulated deficit grow anew. During this time experimentation with *artistic value* occurs, although in the absence of sufficient data, it is impossible to determine what effect, if any, this had on box office income and therefore management control. Another possible cause of difficulty is cost deferral or postponement e.g. wage rises (see discussion in chapter 6). Without further work, we can only speculate as to the cause(s) of the deepening accumulated deficit. This *boom* phase continues until the effects of the UK recession of the early 1990s are felt and a phase of *bust* begins from 1991.

The cycle repeats itself as rescue funding is received by SO (1992) and by 1994 a phase of *boom* begins as management again relaxes control of the company's accumulated deficit.

The pattern which emerges, at SO, may be summarized more specifically as a cycle of crisis, rescue, and relaxation of control. The correlation between shifting levels or plateaux of turnover and accumulated deficit is interesting. Notice that turnover remains relatively stable during the *boom and bust* periods themselves, suggesting that there is inadequate monitoring (feedback) of the deficit situation itself (i.e. turnover itself is not the problem). In a well managed organisation, then, we would expect to see a deepening accumulated deficit trigger corrective action before collapse point is reached.

7.2 Royal Opera House, Covent Garden

Taxonomy plot data for ROH is presented in Appendix 7-3. Supporting financial data, as extracted from the published accounts is presented in Appendix 7-4.

The ROH annual reports and accounts filed at Companies House, unlike those of SO, contain little in the way of qualitative data. The filing of detailed annual review data is optional, and in the case of ROH, has been carried out to a minimal degree. In order to interpret the taxonomy plot features, therefore, it is necessary to rely almost entirely on the mandatory financial statements themselves (i.e. income and expenditure account or statement of financial activity, balance sheet, and notes to the accounts). In the case of ROH this proves particularly problematic, as we shall see.

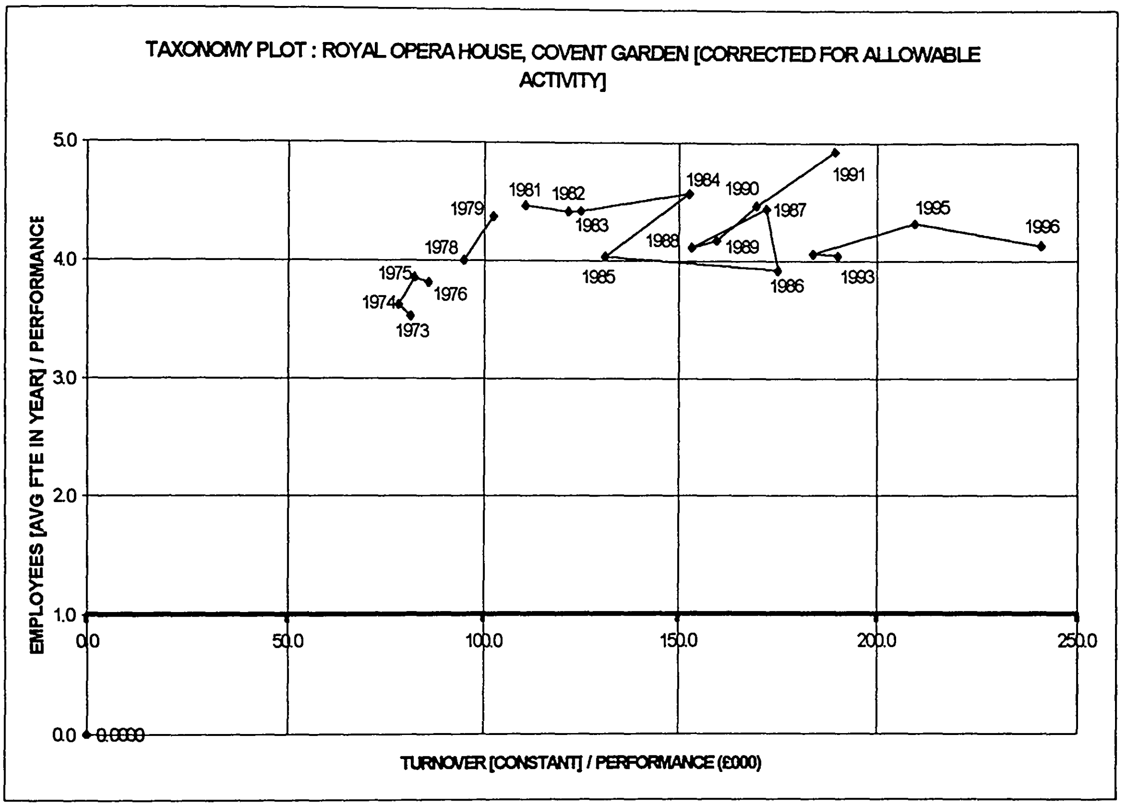


Figure 7-5 : Taxonomy plot : Royal Opera House, Covent Garden

1 : A failure of accountability by ROH and ACE (government agent) suggests a concomitant failure in the subsidy award process

Significant and inexplicable variance exists in ROH performance data as produced by ROH and ACE respectively. This indicates a failure of accountability and suggests the existence of a fundamental flaw in the mechanism of public subsidy award for opera in the UK.

Now, for the purposes of consistency, total performances data (where not stated in the published accounts) was collected for the companies in this study from calendar listings in *Opera* magazine (OC 1972-96). As indicated in the methodology section of this chapter, ROH output, corrected for allowable activity is taken as: all RO mainscale opera performances plus all RB performances given at Covent Garden. After 1992, however, RB performances at Covent Garden cease to be listed in the above calendar source. Thus, in order to correct for allowable activity after 1992, RB performance data was obtained directly from the Arts Council of England Statistics Unit and the Royal Opera House Archive Department in October 1998.

The remit of ACE Statistics Unit is to gather performance data direct from client companies such as ROH, and to supply this data in reliable summary form to other internal departments for the purposes of public subsidy decision making (SC 1998a). It was not therefore expected that significant variance between these two sources (ACE and its client, ROH) should be found.

However, the ACE Statistics Unit figures given in Table 7-1 do not in any way correspond with the figures given by ROH Archive Department. Clearly some of these figures, if not all, are unreliable: an important finding, suggesting that the funding of the *powerhouse* (ROH) is conducted by ACE on an ad hoc basis. The failure in terms of accountability is here without dispute.

VARIANCE IN REPORTED ACTIVITY : ROYAL BALLET 1993-97					
YEAR END SOURCE	1993	1994	1995	1996	1997
ACE STATISTICS UNIT :					
Total RB performances	118	107	106	109	111
ROH ARCHIVE DEPARTMENT :					
Total RB performances (a)	162	163	156	157	138
Variance on ACE data	44	56	50	48	27
Total RB Covent Garden performances	128	102	108	116	94
Variance on ACE data	10	-5	2	7	-17
Total RB mainscale tour performances	34	61	48	41	45
Total RB UK tour & schools performances	3	12	16	15	18
Note (a) : Total comprises Covent Garden plus mainscale tour performances					

***Table 7-1** : Variance in reported activity : Royal Ballet 1993-97*

2 : Lack of appropriate record-keeping and poor response management by ROH and ACE indicates a major failure of accountability

Lack of appropriate record-keeping by ROH, BRB (post-disaggregation) and ACE (government agent) means that no formal public record of SWRB/BRB performance output exists. This, together with poor response management (i.e. the management of response to enquiries from members of the general public or other third parties) indicates a lack of concern with accountability. This finding is explained as follows:

In order to avoid distortion in the ROH taxonomy plot data (i.e. to further correct for allowable activity), performance data for SWRB and BRB (successor company to SWRB after 1990) was sought.

After an unsuccessful direct approach to ROH and BRB, the performance data was sought from ACE (Library, Statistics Unit, and Dance department) (SC 1998h, SC1998a, SC 1998i). This was likewise unsuccessful. Upon the recommendations of ACE, several other bodies were also approached: London Arts Board, Sadlers Wells

Theatre, and the Policy Studies Institute (SC 1998c, SC 1998d, SC 1998c respectively). In each case the outcome was unsuccessful: no performances data for SWRB and BRB was located.

In short, this means that the contribution of SWRB and BRB (before disaggregation) to the output of ROH group cannot be established with certainty, except via archive search i.e. major primary research. Most importantly, it indicates that accountability has not been a primary concern to date, either at ROH, or at government level. Whilst we know that SWRB and BRB have received public subsidy, we do not have any formal, reliable public record of the corresponding output.

Now, since we are dealing with data that is central to the calculation of public subsidy award, it is worth pausing to consider the implications of these findings in terms of accountability:

> 1) ACE Library claimed a lack of space to hold data on individual client companies, such as ROH (SC 1998h). This suggests that ACE has little active interest in long-run studies of its client opera company operations;
>
> 2) ROH Press Office confirmed that annual calendars (of performances) had not been made available to the general public via third party publications, and that the only annual calendars which did exist for the period were those provided in the inhouse *season guides* (which were distributed to subscription holders only) (SC 1998f). This suggests that ROH subscription holders do enjoy subsidy capture since advance listings data is not readily, if at all available to the wider public (see also chapter 6);
>
> 3) ACE Dance Department claimed it could not supply the necessary SWRB/BRB performance data for two reasons. Firstly, only the last two years of client company data are kept locally on ACE premises, and access to relevant archives (stored off-site) requires special and prior request (SC 1998f). This

suggests again that subsidy decisions are made on the basis of short-run information. Secondly, and perhaps more significantly, such detailed information is not usually kept by ACE since information concerning actual award amounts is the stated priority. This suggests that funding criteria are ad hoc;

4) ROH Finance Department were unable to supply annual reviews (which it is not mandatory to file at Companies House, but which often contain performance data) since copies were not thought to be held by the Department (SC 1998g). Moreover, the Finance Department did not think in any case that it had the authority to send out such data. Whilst it was not thought probable, it was tentatively suggested that this might be an issue for the Publications Department. Significantly, at the time of enquiry (October 1998) the Head of Finance post appeared to remain unfilled, whilst the acting Head of Finance was, at the same time, absent on paternity leave;

5) BRB Marketing Department thought the data *might* exist and that it might be found by *asking around* the company members (SC 1998b). This lack of formal archive procedures indicates a major failure of accountability. A follow-up enquiry was made to this source to check progress of the enquiry. Despite assurance that the matter was in hand, no further help was forthcoming. This indicates poor response management and suggests a culture of complacence (within BRB at least).

It should be noted, that whilst the ROH Archive Department was closed during the period of research, RB performance data was eventually forthcoming from this source (via previous enquiries to the other ROH departments mentioned above). As we have seen, however, this data does not appear to be reliable (finding 1). This does not change the fact that SWRB/BRB performance data was not available and that there is therefore poor accountability.

3 : The powerhouse model is being implemented in weaker form and probably for economic reasons

In the context of the *powerhouse* model, the concept of the *powerhouse* itself implies an organisation in which opera forms the main performance activity in terms of percentage output i.e. a *powerhouse* of opera.

At the start period of the parametric study (early 1970s) this concept of the *powerhouse* appears to hold. Indeed, ROH output figures seem to substantiate the concept, showing that, at Covent Garden, where both ballet and opera are performed, opera accounted for approximately two-thirds of total output (Figure 7-6). In the early 1970s opera certainly appears to form the dominant activity at ROH.

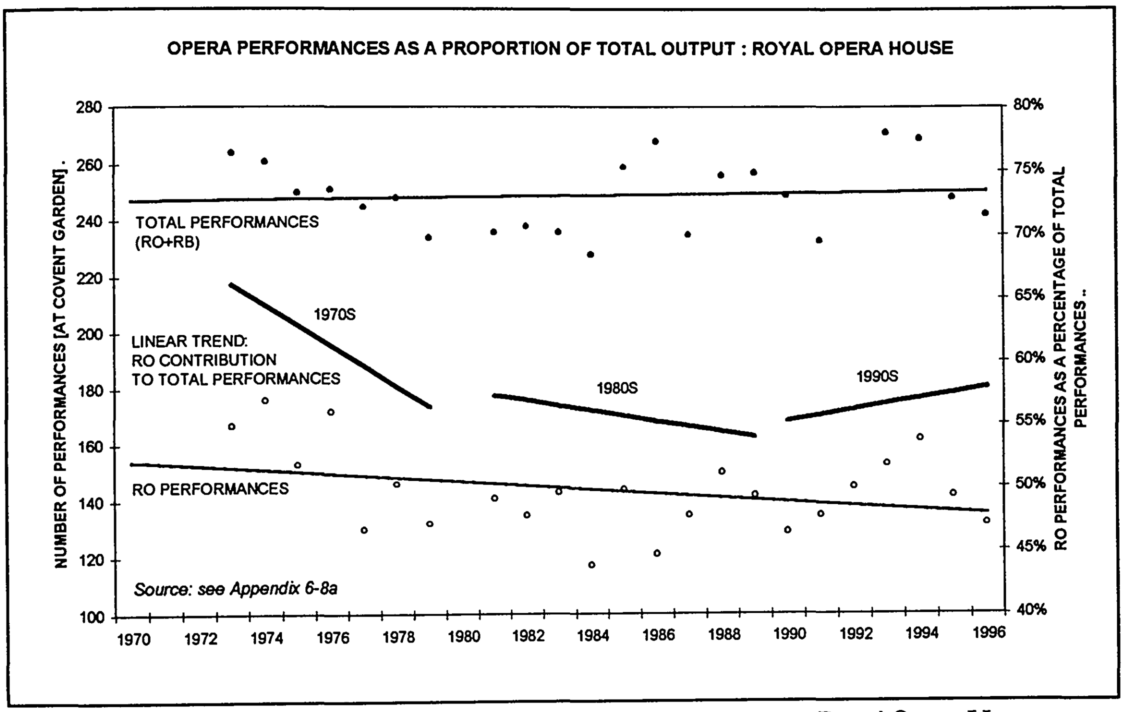


Figure 7-6 : *Opera performances as a proportion of total output : Royal Opera House*

However, by the end of the survey period (1996), while total ROH output has gone up, some 35 opera performances have been removed (equivalent to between 3 and 5 productions). With opera now forming just over half total output (an average 56% during the 1990s) it becomes questionable whether ROH is still the same type of company as it was in the early 1970s. Indeed, whilst the *powerhouse* model may have been retained, it has been permitted to diverge from the goal of *driving* quality through the subsidized opera sector, by losing the dominance of opera. This divergence appears to have taken place in the late 1970s (Figures 7-6 and Appendix 6-8), concurrently, though this may be coincidental, with a period of high inflation.

It is important to monitor this trend in ROH output (Figure 7-6) to see whether the squeeze on opera continues or is reversed. One way of measuring the effect of the refurbished Covent Garden, for instance, would be to test for significant reversal of the trend.

Since it is unlikely that the weakening of the *powerhouse* model that we have found has been carried out for artistic reasons (e.g. nowhere is it stated in the Director's Reports in the ROH financial statements that the principal activities of ROH have been changed in order to reduce the importance of opera), we must seek proof that it has been done for economic i.e. *financial value* reasons.

4 : Evidence that the powerhouse is kept isolated from the environment via a particular and apparently reactive public funding process

During the 1970s and 1980s ROH was so cushioned against the external environment that any losses (strictly, deficits) which may have occurred, appear to have been immediately absorbed by special means (see Figure 7-7).

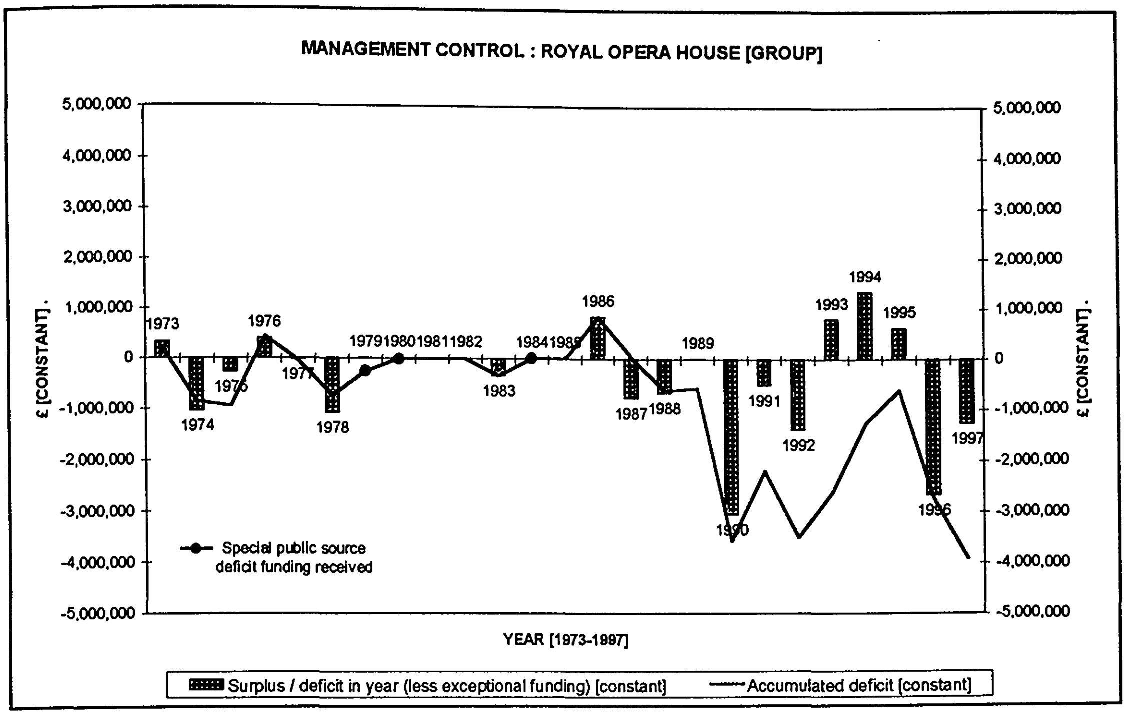


Figure 7-7 : Management control : Royal Opera House, Covent Garden

By comparing Figure 7-7 with Figure 7-3 (which shows equivalent data for SO) we can see that the plot of current and accumulated deficit data is relatively flat in the case of ROH (for data see Appendix 7-16). Superficial interpretation would suggest that ROH has been much more successful in meeting budget targets and in controlling the financial performance of its operation. However, such a conclusion would be grossly misleading. What we see in the case of ROH is an operation so cushioned against the environment that any losses (strictly, deficits) which do occur are immediately absorbed by special means.

These special means, in the case of ROH, are hard to detect. Only in 1979, 1980, and 1984 do below-the-line special deficit grants from public sources appear (see Appendix 7-16). However, between 1979 and 1985, the income and expenditure accounts of ROH always balance to £0, an obviously artificial outcome suggesting that some component of funding was being used as a balance item to generate this result.

Indeed, during these years, 1979-85, the ACGB *Guarantee* amount appears to operate as a balance item specifically calculated to absorb any current deficit which may have occurred (see Appendix 7-16). It is therefore impossible for us to gauge the effectiveness of management control at ROH. More importantly, it leads us to question precisely on what basis subsidy was awarded to ROH during these years?

5 : The apparent stability of ROH *illustrates the potential unreliability of the financial reporting system as a mechanism of accountability*

The annual financial reports of charitable organisations (which includes organisations such as ROH) are generally relied upon as the prime mechanism by which insight into the activities of these organisations may be gained.

However, because of the distorting effect of ACGB *Guarantee* funding, in particular, at ROH (discussed under finding 4 and demonstrated in Figure 7-7) it is difficult to gain a clear picture of ROH activities from the company's financial reports. Indeed, there is a major failure of transparency here, since insufficient information is presented in these reports to enable the user to discover the criteria by which the annual *Guarantee* sum was arrived at, and therefore, how it was justified.

Following the recent final agreement of SORP2 (Statement of Recommended Practice Two : Accounting by Charities) and the issue of new accounting regulations as per the Charities Act 1993 (for discussion, see Williams and Palmer 1998) attention is now focussed on ensuring the future reliability of financial reporting as a mechanism of accountability.

However, stricter and more detailed and consistent reporting will not, of itself, solve the underlying problem here, which is this: that the use of *Guarantee* funding by the ACGB (i.e. guarantee against losses) will tend to mask technical or financial inefficiency in the receiving organisation, particularly if conditions attached to the use of such underwriting activity are not apparent.

The issue, in terms of accountability is this: when is a loss a completely unforeseeable, unavoidable, and therefore *justifiable* loss; and when is it simply the result of poor internal control and poor risk assessment? In short, what price producer stability?

At the very least, the provision of *Guarantee* funding is likely to produce a disincentive effect: there can be no real advantage to the opera company to improve financial efficiency if, in any case, its operational losses are to be absorbed by its public funders.

Moreover, it appears that the *Guarantee* funding mechanism, which is retrospective in nature (i.e. funding completed activity) simply acts to fine-tune or top-up that core funding (ACGB *General Grant*) which is awarded on the basis of planned activity, and which is received, at least in part, in advance of the year's production. This, in effect, is to remove the full responsibility for risk assessment from the opera company, signalling to management that, in fact, a margin of error in budgeting is not only acceptable, but is to be expected. Were the company to be awarded a once-off tranche of funding in advance of each season, with no possibility of additional assistance at the season's end, the situation would be wholly different.

There do not appear to be any strong arguments against such a policy. Indeed, single-tranche funding of this nature would not only introduce greater transparency (the total actual central government funding would be known with certainty and known in advance of production, thus permitting debate), but would impose greater financial constraint on company activities (promoting efficiency) and ultimately, accountability, since any failure on management's part to set and work within budget constraints would become manifestly clear. In the absence of evidence we can only infer that this policy is not adopted by ACGB because client companies are not perceived to possess the relevant management skill and financial discipline to match artistic goals and budgetary targets in a realistic way; in other words that they do not possess the requisite risk management skills.

But if the opera company does not have the ability to assess the riskiness of its planned season, then who does? The question is particularly pointed given the cultivated disinterest (the *arm's length* principle) with which the ACGB approaches the matter of client company expenditure. Whilst ACE monitors five main performance indicators of client activity (breakdown of income, total expenditure, audience levels, degree of innovation, and education outreach) no *set criteria* are monitored with respect to expenditure. Indeed, it is the experience of ACE that *government is not generally concerned with how the money is spent, although DCMS* [Department of Culture, Media and Sport] *will occasionally query the percentage overhead on an individual client* (SC 1998a).

There is a contradiction here. The ACGB cannot both maintain an *arm's length* approach to support (disengaging from decisions about how funds are spent in order to preserve the artistic freedom of the client) *and* effectively absolve the client of responsibility for poor risk assessment (by taking upon itself the responsibility to underwrite actual losses incurred). In this scenario there occurs a failure of means-end rationality which must inevitably compromise the public interest. Whereas the opera company possesses the means to assess risk (i.e. knowledge of market, expected box office performance and expenditure plans) it is not entrusted with the end of underwriting that risk; this is left to the ACGB, which, by virtue of its disengagement policy, undertakes to cover the risk, but without the means (interest in the expenditure plans of the client) by which to make an adequate assessment of that risk. Thus, the freedom which the opera company gains is the risk which the *artistic value* franchise must bear; and bear, since the process is not transparent, without possibility of redress. This is a cost-benefit relation heavily skewed in favour of the producer.

6 : Private patronage of ROH *by individual Board members introduces subsidy capture and distorts Board level representation*

Whilst the system of patronage of the arts by church, monarchy and aristocrat may be regarded as an historical phenomenon, elements of patronage, in its strictest sense, still persist in the current era. Distinction needs to be made here between the wealthy private patron who supports the arts on a disinterested basis (e.g. via a trust fund which disburses funds to deserving causes with which the trustee(s) have no connection) and the wealthy patron who directs personal funds towards a charitable organisation in which he or she retains an active management or directorial interest. There is a profound difference.

Examination of the composition of the ROH Board of Directors between 1990 and 1996 (the end of our survey period) reveals a consistent thread of *interested* patronage of the type described above. Cross-comparison of the list of Board members with the list of *other grants, sponsorship and donations,* as presented in the relevant ROH financial reports, shows that two key individuals, from a Board membership of approximately 15, may be identified as what we may term *private patrons with directorial interest.*

The Lord Sainsbury of Preston Candover (Chairman of the Board 1989-91) and Mrs Vivien Duffield CBE (member of the Board from 1990, and still a member at 1996), for instance, have both acted as patrons of ROH during the period 1990-96. Lord Sainsbury can be identified with The Jean Sainsbury Royal Opera House Fund, and Vivien Duffield with The Vivien Duffield Foundation, and through these respective funding vehicles each have contributed financially to *specific projects, touring,* or individual *productions* on an annual basis for most of this six year period (ROH ARA 1990-96).

Specifically, the Vivien Duffield Foundation (of which Mrs Duffield is the principal trustee) does not issue information about its policies and does not seek applications, considering only those accompanied by a personal request from persons known to one of the five trustees; and the ROH is a regular beneficiary (Farrow and FitzHerbert 1993). It is apparent, therefore, that the individual trustees of the Vivien Duffield Foundation do not consider it important to maintain a distance between themselves and beneficiary organisations. Indeed, personal motivation seems to be the key.

Now whilst the Sainsbury Family Charitable Trusts (under which the Jean Sainsbury Trust is subsumed) are open to applications, financial reporting, at least in 1993, lacked transparency: the value of grants given to individual organisations was not stated (Farrow and FitzHerbert 1993). This is a problem mirrored by the ROH financial reports themselves i.e. amounts given by individual sponsors and donors, where these are material, are usually stated in aggregated form.

This kind of *private patronage with directorial interest* has serious consequences. It means that Board members function on a non-equal basis. For instance, in cases where Board members represent public funders (such as a Local Authority) the funding is not predicated on the individual and representation is made in the public interest. This is not true of the private individual who, effectively, represents his or her own interests as a private patron. In this instance, funding *is* predicated on the individual, and whilst the public funder representative can be replaced without detriment to the funding itself, replacement of the private patron may mean a corresponding loss of funds.

Private patrons with directorial interest also enjoy a subtle form of subsidy capture. For instance, it is entirely possible for the private patron, who is also a Board member, to make his or her funding conditional on some aspect of policy, be it artistic or financial. This can occur for precisely the same reasons discussed above: that it is difficult to overrule an individual who is personally identified with a funding source. Thus, in this way, it is perfectly feasible for a powerful private patron to exert undue influence on, for instance, repertoire choice, choice of artistic personnel, production budgets, ticket prices; in sum, a whole range of *artistic* and *financial value* issues. Potentially, the private patron captures public subsidy once, when he or she influences how it is spent, and twice, when he or she takes a seat in the auditorium as a member of the audience.

This kind of subsidy capture builds in inertia. Because it is difficult to remove the private patron from the Board without threatening the funding which that patron brings, a barrier to radical new financial or artistic departures is easily created. The longer the private patron remains on the Board, the more the status quo is preserved. We cannot expect the funder to fund what he or she does not like, or to fund anything which profoundly changes the company's artistic goals - moving them away from those which the patron may have helped establish in the first instance. Indeed, a striking example of this type of problem is provided by the recent Department of Culture, Media and Sport Select Committee inquiry into the closure period plans of ROH:

> *Lord Chadlington* [chairman of the board] *wrote to inform us that the Board had approved a plan which would inject up to £12 million into the Royal Opera House over the closure period, subject to certain conditions; he reported that the Arts Council considered the plan to be 'robust'. On the other hand, we were concerned to learn from his letter that donors to the rescue package had 'made it clear that they are funding the Royal Opera House itself' and were seeking 'reassurance and certainty over which companies will play' at Covent Garden. Such conditions to donations appear to preclude some of the options which Sir Richard Eyre* [then conducting a review of lyric theatre for the Secretary of State] *has been asked to consider and which it cannot be ruled out may be included in his reports* [see Eyre (1998)]. *These conditions therefore throw into uncertainty a reliance on such donations if Sir Richard Eyre's report is not to the liking of the donors* (DCMS SC1 1997:IV).

This makes artistic innovation problematic, Moreover, it suggests that concern about the potential influence of corporate sponsors on artistic policy is of significantly less consequence than the problem imposed by the continuing influence of the private patron, who acts from the position of special privilege afforded by membership of the Board of Directors. Whilst we have, for the sake of clarity, identified only two such private patrons, it is entirely possible that the problem is much wider.

The ROH Trust, for instance, which has received funding from individuals, corporations and charitable organisations since 1974, and which is a vital force in maintaining ROH operations, is, from the point of view of ROH financial reports, an unknown quantity. To what extent the ROH Trust has been captured by private patrons on the ROH Board itself (i.e. to what extent its trustee names overlap with those of the ROH Board itself) is not apparent. In order to check, here, it would be necessary to consult an entirely separate set of financial reports (i.e. those for ROH Trust itself). Whilst we ought to be able to rely on the statements of directors' interests which must accompany the financial reports submitted to Companies House, submission of this data appears to be erratic (although the fault, equally, may lie with Companies House itself; for further discussion see WNO finding 2).

Furthermore, there is, in the 1996 financial report, the matter of an £8.2 million source of funds which is simply labelled: *other donations*. This is a clear failure of transparency: it is imperative, in the interests of the independence of ROH itself, that such *other donors* be properly identified. At the very least, the maximum individual donation should be stated as a guide to materiality. Otherwise the possibility cannot be ruled out that the opera company is not being used as a vehicle for political lobbying (i.e. the giving of generous private donations to national institutions in return for access to Members of Parliament). This is not an unreasonable assumption since politicians have, in the past, been represented on the Boards of UK subsidized opera companies e.g. The Rt Hon David Mellor QC MP (ENO, mid 1990s) and Paul Boateng MP (ENO, mid 1990s) (see Appendix 7-22).

Overall, there is obvious threat, here, to the ideal of full and free participation in the *artistic value* franchise.

7.3 English National Opera

Taxonomy plot data for ENO is presented in Appendix 7-5. Supporting financial data, as extracted from the published accounts is presented in Appendix 7-6.

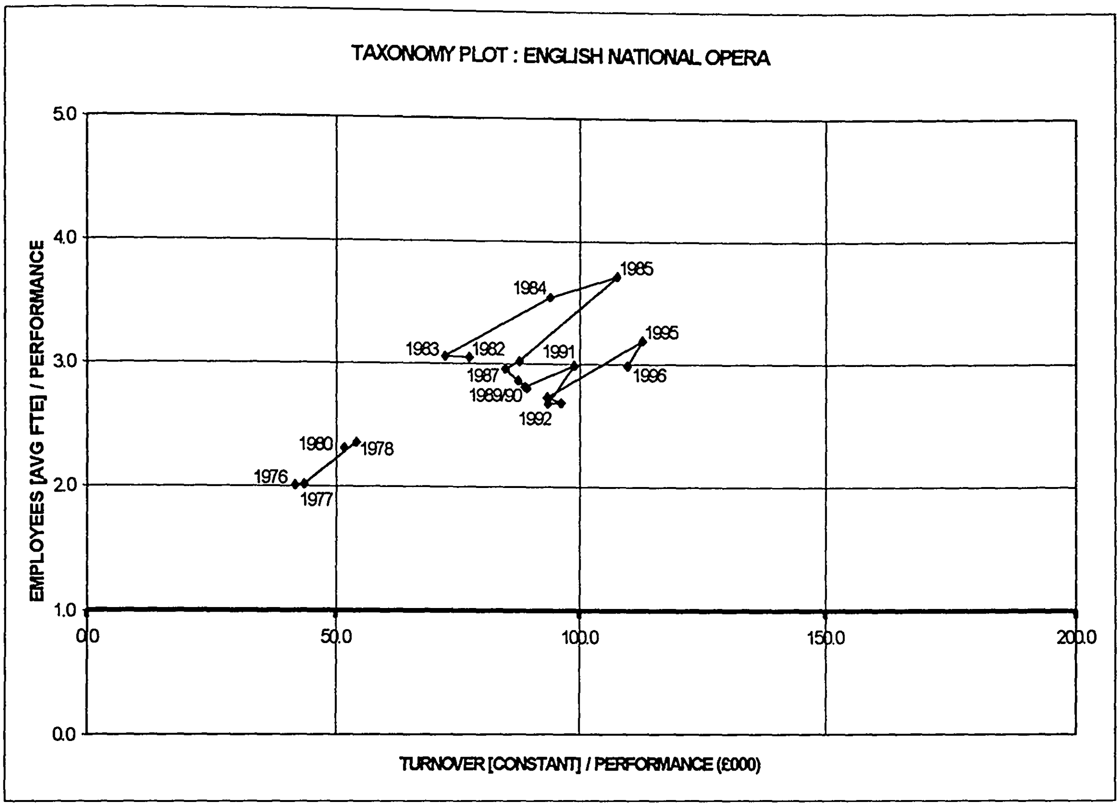


Figure 7-8 : Taxonomy plot : English National Opera

1 : Failure to guard against risk which might threaten the viability of ENO indicates management incompetence

In 1984 ENO gave 25 performances in the USA. However, because: *promises of financial support from this tour were not forthcoming... a substantial part of the costs were not covered, giving rise to an exceptional deficit* [on the tour] *of £640,818 to which has been added interest of £48,800* (ENO ARA 1985). In constant terms, this exceptional deficit amounts to some £1.04 million, approximately 7% of 1984 turnover. Since risk of this significance merits special attention, the apparent failure to safeguard against default by funders (e.g. by agreeing appropriate contract terms, or by insurance, or both) indicates management incompetence.

The consequences of this incompetence can be seen in Figures 7-8 and 7-9 which show that the company entered a phase of apparent instability in the years immediately following the 1984 tour. In 1985, ENO had raised funds (by private appeal) to cover around 90% of the tour deficit (ENO ARA 1985). In addition, the Government had announced that £286,000 (in constant terms) was to be made available from The Office of Arts and Libraries (as special funding to address the tour deficit).

However, these *gains* were offset by a major deficit on the year's activity (1985) of some £1.2 million (see Appendix 7-17). This meant a further deterioration of the company's finances. Moreover, ticket prices were raised 8% midway through 1985, whilst total output remained some twenty to thirty performances below pre-USA tour levels (see Appendix 7-5). These actions, whilst resulting in further intensification of ENO's operations (Figure 7-8) appear to have been driven by a dual need to increase income (via box office receipts), and to cut costs (via reduced output).

Significantly, in 1986, it was reported that:

> *Audience levels showed a significant increase on recent years despite an 8% increase in seat prices in August 1985. Helped by the increase in the number of London performances (which was depressed in 1984/85 by the US tour) total box office receipts exceeded the previous year by more than £1 million* [current prices]. *Catering and merchandise sales, and sponsorship and donations income also recorded a significant improvement* (ENO ARA 1986).

Now, it is probable that ENO's decision to raise ticket prices in 1985 was prompted as much by factors in the external environment as it was by the financial consequences of its 1984 overseas tour. Figure 5-5 shows, for instance, that in the early Thatcher years (1979-85) UK government spending on recreational and cultural affairs had been subject to great volatility (by 1985 it had, in real terms, showed a fall over two consecutive years). At the same time, real disposable income was rising and consumer confidence was high (Figure 5-4). It was, in a sense, a logical time to try to increase box office income.

Nevertheless, the distraction afforded by the need to run a separate private appeal (to cover the overseas tour deficit) is likely to have contributed to the apparent instability of the post-tour period. The more management is preoccupied with firefighting in the short-term (i.e. maintaining the immediate viability of the company) the less it can concern itself with long-term planning and artistic objectives.

Thus, by not safeguarding the funding for the 1984 USA tour, ENO management effectively gambled with the viability of the company. At the very least, it should have ensured that a negotiative instrument, such as a letter of credit, was included as part of the contract with its funders. Alternatively, insurance, by way of a Government backed Export Credit Guarantee might have been arranged. These types of safeguards, well developed in private sector practice, would have ensured that funds were made irrevocable. It is quite possible that ENO's tour funders were not prepared or able to accept contract terms involving a letter of credit. But even if this were the case, it simply adds force to the argument for not touring in the first place.

What can we conclude from the actions of ENO management regarding the 1984 overseas tour? Fundamentally, the decision to go ahead with the tour on an unsecured basis can be interpreted in one of three ways:

> 1) ENO management may have felt that the *artistic value* benefits of undertaking the tour would outweigh the risk to the company's financial viability; and that the company would return the stronger and more artistically mature as the result of exposure to an overseas audience; that whatever the outcome, the artistic benefits would outweigh the financial costs.
>
> 2) It is reasonable to suppose that ENO management simply did not entertain the possibility of failure; that they were unable to comprehend or properly evaluate the risk to which their actions would subject the company.

3) More damagingly, it is also feasible that ENO management did indeed recognise the risk of financial failure, but that a belief was held that the UK Government would provide a safety net and bail the company out in the event of such failure; that the cost of the company's failure (which would be a very public and embarrassing one) would be too high for Government to bear and that rescue funding would almost certainly be forthcoming.

Ultimately, this leaves us with the central question: why do UK subsidized opera companies undertake overseas touring? What exactly are the benefits, and how do these outweigh the obvious costs to the UK taxpayer?

2 : Reliance upon anonymous donations threatens the independence of ENO as a charitable arts organisation

In 1994 ENO received an anonymous donation of £1 million [current prices]: a donation which although directed towards the company's planned redevelopment of the London Coliseum (i.e. a capital expenditure project) was included in deferred income (ENO ARA 1994). This indicates a major failure of accountability and suggests that the independence of ENO as a charitable arts organisation may have been seriously compromised in the past. Indeed:

> *Beside awareness of accounting treatment, it is important for the reader* [of financial reports] *to know the identity of the grantors* [patrons or donors], *or at least those that are material, because usually the grantor* [patron or donor] *will seek to influence the policy of the charity. Such information therefore gives an indication of how independent the charity is* (Williams and Palmer 1998:274).

In the case of a subsidized opera company, there is, in addition to the question of *independence*, the question of subsidy capture. It seems unlikely that a donation of such obvious *materiality* might be made in purely disinterested fashion, but we simply have no evidence to prove otherwise. In the absence of information about the donor's identity, we have no way of checking, independently, the motivation of the donor, nor whether he or she had at the time, any connection with the company. Indeed, it is perfectly feasible that we may be looking at a case of *private patronage with directorial interest*, at a quid pro quo arrangement between an external donor and the Board of Directors (e.g. access to key personnel for the purposes of political lobbying or influencing a contract tendering process), or at a straight influencing of artistic policy. This last would allow the private donor to enjoy the subtle form of subsidy capture discussed under ROH findings 2b and 2c (chapter 6) i.e. the privilege of influencing how subsidy is spent as well as enjoyment of subsidized consumption of the end result.

Now ENO might prove all these fears unfounded; it might well be able to refute these arguments. But this is not the point: a post-hoc defence is not equivalent to real openness and honesty, the prerequisites of accountability.

The issue here is this: given the track record of ENO, can opera managements be trusted in the future? There are, for instance, other examples of anonymous funding of a material nature within the subsidized sector. The £8.2 million *other donations* received by ROH in 1996 has already been referred to (ROH finding 6), but in 1990 ENO received £115,000 [in constant terms] as donations for an overseas tour, some, or all of which (we are given only partial information) was received anonymously; and in 1982 SO reported that, of its six principal benefactors, one was *a major anonymous donor* (SO ARA 1982).

Note: anonymous donations are not necessarily a problem if the goals of the charitable organisation are specific and detailed. However, the principal activity of ENO as stated in the 1994 financial report is ambiguous:

> *The principal activity of the company is to encourage the understanding and appreciation of the lyric art by producing and presenting performances of opera in English of cultural value to the community and introducing opera to new audiences and young people through educational and outreach programmes.* (ENO ARA 1994).

The ambiguity lies in the fact that *cultural value* appears to be self-defining in this context since it does not imply an independent referent. In fact, the statement is meaningless because it sets out a goal which cannot be measured.

Ultimately, the problem of anonymous donations and non-specific organisational goals is the problem of controlling sectional interests within the *artistic value* franchise. The underlying question is this: does unequal access to scarce resources (here, public subsidy and the chance to influence its use) necessarily produce an equitable outcome in terms of the public interest; and does it benefit *artistic value* (this is quite apart from the question of whether maximization of *artistic value* and maximization of the public interest are one and the same goal)?

It could be argued that the ability to make large anonymous donations to publicly subsidized arts organisations is an arbitrary privilege (in the sense that the luck of wealth gives some individuals and groups greater potential control over the *artistic value* agenda than others). Moreover, in the absence of well defined organisational goals, we should ask not only what defines the public interest in this context, but who defines it? This is an important point, since the potential here is to allow one group's conception of the public interest to have priority over others in the franchise.

Certainly, in the context of a democratic society, where there is committment of sorts to egalitarian ideals, departures from equality clearly require some degree of moral justification.

3 : Failure of transparency in the management of public source special revenue funding

Two tranches of *Incentive/Enhancement* funding were reported in ENO financial statements in the late 1980s and early 1990s. First, in 1989 ENO reported the award of an ACGB *Incentive Grant* of £250,000 [current prices] which was to be spread over the three-year period 1989-91, and which was conditional on the meeting of certain financial criteria. Second, in 1991 the company reported a similar such award (ACGB

Enhancement Funding) of £600,000 [current prices] which was to be spread over the three-year period 1992-94 and which, again, was conditional on the meeting of certain financial criteria. The failure by ENO to treat these two tranches of additional public funding consistently, and separably, results in a failure of transparency. Principally, it is a failure of transparency because it cannot be established with certainty, from the ENO financial reports, whether the funding was received and whether the requisite financial performance conditions were fulfilled.

In 1989 ENO reported the first of these *Incentive/Enhancement* awards: the award of an ACGB *Incentive Grant* of £250,000 (in current terms) receivable over three years (1989-91) and conditional on the recording of an *aggregate sustainable increase in non-grant income of at least £500,000* (ENO ARA 1989). Since this special revenue funding has been treated appropriately as a separable item, the receipt of the award is clearly visible in the company's financial reports for each of the three years (see Appendix 7-6). Moreover, it can be established from the financial reports that the grant award conditions appear to have been met as required: there is a particular reduction in the public income factor (the percentage of total income from public sources) between 1990 and 1992.

However, further investigation suggests that the grant award conditions were met almost solely via ticket price increases and not, as might be expected, via increases in sponsorship and donations. Thus, although ENO achieved a public income factor of less than 50% for three consecutive years (1990-92) this outcome appears to have been achieved via two rises in ticket prices (rises reported as 14% during 1987 and 15% during 1988). These price rises are reflected in the 1989 year end results (see Appendix 7-6). This suggests that the *Incentive Grant* was made conditional on the basis of performance criteria which were almost bound to be fulfilled.

Moreover, despite this box office boost to private income, and despite continued real rises in the ACGB general grant over these years, the company still managed to plunge into deepening accumulated deficit after 1989. Furthermore, this deficit trend was temporarily alleviated in 1992, it appears, with funds received for the purposes of acquisition of the freehold of the company's home venue (The London Coliseum). Note, the acquisition price of £12.8 million (in current terms) was covered by grants from the ACGB (£10.8 million) and The Foundation for Sport and the Arts (£2 million). Most of these funds were received before the year end 1992 and were treated as deferred income (a balance sheet item). Whilst this would not ordinarily affect the accumulated deficit (elimination of which was a criterion of the second funding tranche, discussed below) releases made from deferred income directly to the income and expenditure account would act to reduce any deficit which occurred. This is precisely the pattern of events we see in ENO financial reports from 1992. Though the value of these releases is quite small (approximately £250,000 in current terms in 1992, for instance) it does indicate the existence of a problem. Specifically, it shows that one public funding mechanism (here, a capital grant award) has been permitted to interfere with the award criteria of another (here, revenue funding in the form of enhancement funding). Such circularly is clearly unacceptable in terms of the public interest.

Now, in 1991 the award of ACGB *Enhancement Funding* was reported along with a statement of the conditions upon which it was contingent:

> *The Arts Council has offered a grant for the 1991/92 financial year which represents a total increase of 14.6% on that for 1990/91. This grant includes* [i.e. not reported as a separable, traceable item] *£600,000 awarded from the new Enhancement Fund; in future years grants are expected to relate to this new base. Certain additional conditions are attached to this upgraded subsidy, principally as a business plan that demonstrates a substantial income growth* [earned, private income] *and the elimination of the accumulated deficit within three years* [i.e. by year end 1994], *with one third eliminated in the 1991/92 financial year* [i.e. year one] (ENO ARA 1991).

As evidence presented in Table 7-2 and Figure 7-9 shows, whilst the company appeared to start well in terms of meeting these *Enhancement Fund* conditions (private sources of income increase by 10% in real terms between 1991 and 1992 alone) by 1994, at the end of the specified period, neither had private income shown a *substantial increase*, nor had the accumulated deficit been *eliminated* (see also Appendix 7-17 and ENO ARA 1991-94).

In fact, by 1994 the company's position vis a vis these parameters (private income and accumulated deficit) was considerably worse. In real terms : private income had fallen by 10% and an accumulated deficit of £2.9 million in 1994 had been incurred despite a 1992 starting position deficit of less than half that value (£1.4 million). We can see this from Table 7-2 and Figure 7-9:

ACGB ENHANCEMENT FUND 1992-94 : PERFORMANCE AGAINST AWARD CRITERIA					
YEAR	1991	1992	1993	1994	92-94 CHANGE
All data in constant terms					Note 1
INCOME COMPONENT					
Private sources (total) (£)	9,790,500	10,757,000	10,485,000	9,660,000	
Change on year		10%	-3%	-8%	-10%
Public sources (total) (£)	9,692,500	10,582,000	11,528,000	11,812,000	
Change on year		9%	9%	2%	12%
ACCUMULATED DEFICIT					
Accumulated surplus / deficit (£)	-1,403,000			-2,901,600	107%
Note 1 : Change in accumulated deficit measured on basis of opening position for 1992 (I.e. 1991 year end) and clsosing position for 1994.					
Sources: see Appendices 7-6 and 7-17					

Table 7-2 : *ENO performance against ACGB grant award criteria*

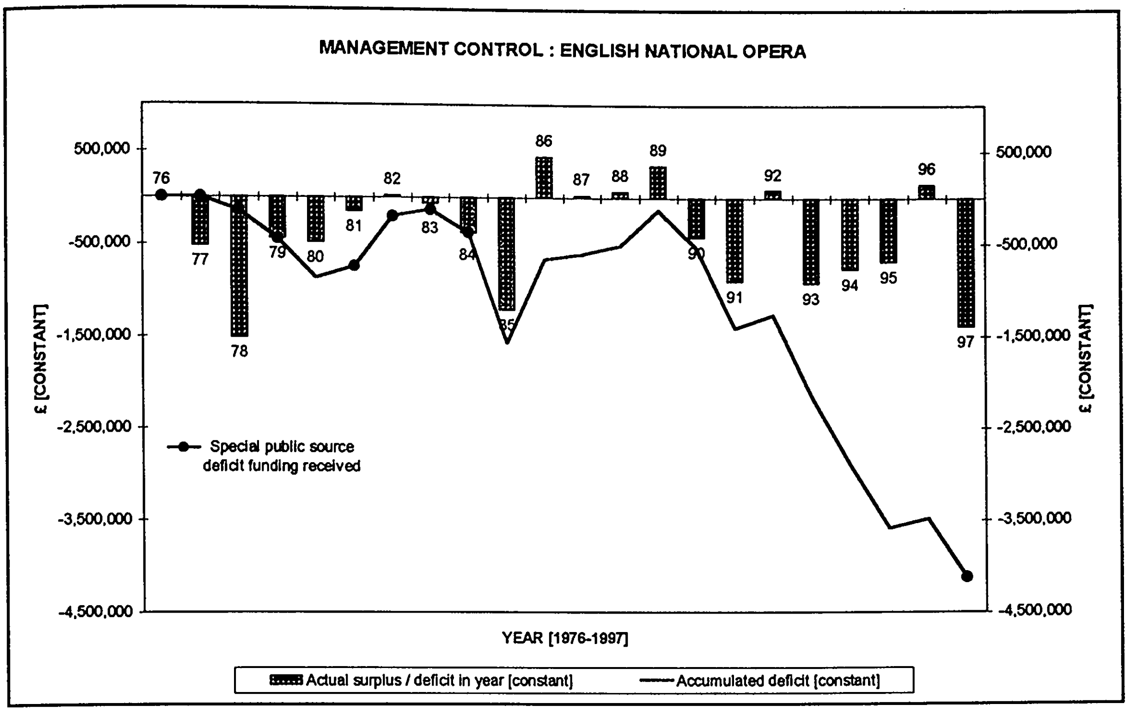


Figure 7-9 : Management control : English National Opera

Now because it is not treated as a separable item in the financial reports, it is not clear whether this *Enhancement Funding* was awarded for the second and third year of the three-year award period (its receipt is reported in the first year of the award, 1992, but no trace can be found thereafter). Even if we assume that the funding was withdrawn for 1993 and 1994, through failure to meet the stated award conditions, it is difficult to explain why ENO's public source income still showed a real increase of 12% over the period. Specifically, it is hard to explain why the ACGB general grant component *alone* accounts for this 12% increase. Clearly there is a failure of transparency and accountability.

Indeed, it might be asked why the ACGB instituted this *Enhancement Fund* award if, as it appears, there was an intention to increase ENO's general subsidy in any case. Moreover, since we know that ACE keeps only two years of client records in its offices, archive data being kept off-site (see ROH finding 2) it raises the fundamental question as to how a three-year award such as the above *Enhancement Funding* award 1992-94 can possibly be monitored? There is, in fact, no evidence here to suggest that such performance predicated awards are adequately monitored at all.

The following conclusion from a survey of charity sector accounting practice in the mid 1980s best sums the transparency problem faced by the reader of ENO financial reports 1989-94:

> *The lack of any standardisation of presentation means that it takes the user a long time to discover each piece of information - or to reach the conclusion that it is not disclosed anywhere* (Bird 1986:49).

Thus, whilst we cannot know the exact outcome at ENO, we can infer the existence of a problem. In the following extract, for instance, Peacock (drawing on his experience as former chairman of the Scottish Arts Council) considers the problem of how to minimize the disincentive effects of subsidies (an issue we discussed in chapter 6):

> *This is not easy to bring about, but one possibility is to tie the subsidy to the earning of the company obtained from its sales or even from all sources of income in the private sector. In other words, the subsidy becomes a form of matching grant. This has been tried in the UK in the late 1980s in the Incentive Funding Scheme administered by ACGB as an ad hoc arrangement financed by earmarked funds provided by the then Minister for the Arts. In following the prevailing practice of awarding subsidy on the basis of planned activities, it ran into the problem of the impracticability of 'clawing back' the grants to the extent that companies did not believe that the condition that they would have to repay grants if they did not reach their agreed target would hold, particularly if they could claim that it would make them bankrupt! This would suggest that any matching grant should be a reward* [i.e. not an incentive] *for a demonstrable effort to increase private sources of income* (Peacock 1994:182).

7.4 Welsh National Opera

Taxonomy plot data for WNO is presented in Appendix 7-7. Supporting financial data, as extracted from the published accounts is presented in Appendix 7-8.

Note: WNO data can be plotted from 1979 only, since before that date, the company operated as WNOD (Welsh National Opera and Drama). This means that financial data pertaining to opera activity, alone, cannot be meaningfully extracted out from the published accounts up to this date.

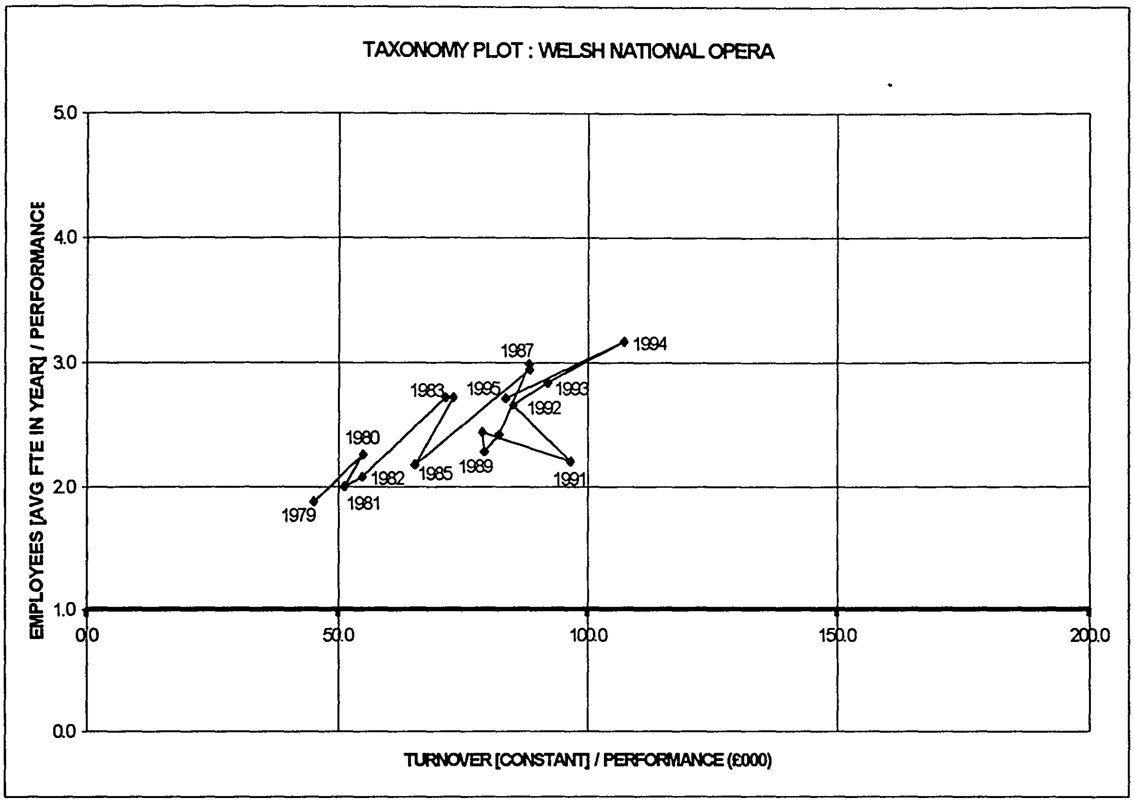


Figure 7-10 : *Taxonomy plot : Welsh National Opera*

1 : Attempts by WNO management to link levels of public subsidy with increases in financial efficiency appear to fail; however, because of the existence of pre-agreed funding parities, a sector-wide effect is apparent

The 1990 financial report of WNO contains the following statement:

> *The need to secure an increase in public funding increases at the same rate as that for earned income remains the major objective that it has been throughout the company's recent history* (WNO ARA 1990).

This is an income maximization argument, and although Figures 7-11 and 7-12 suggest that it has not produced individual benefits for WNO (we would expect to see a lag effect whereby growth in private sector income in one year would be followed in the next by growth in public subsidy), evidence points to a sector-wide effect.

First, however, Figues 7-11 and 7-12 taken together, appear to substantiate the existence of pre-agreed funding parities, since the distribution of subsidy (excepting special deficit grants and other non-regular funding) can be seen to operate independently of individual company improvements in financial efficiency (for data see Appendices 7-1 to 7-14). Indeed, the basis of distribution would appear to be static (note the SO 1991 data point in Figure 7-12 may reflect an element of unidentifiable exceptional public source income).

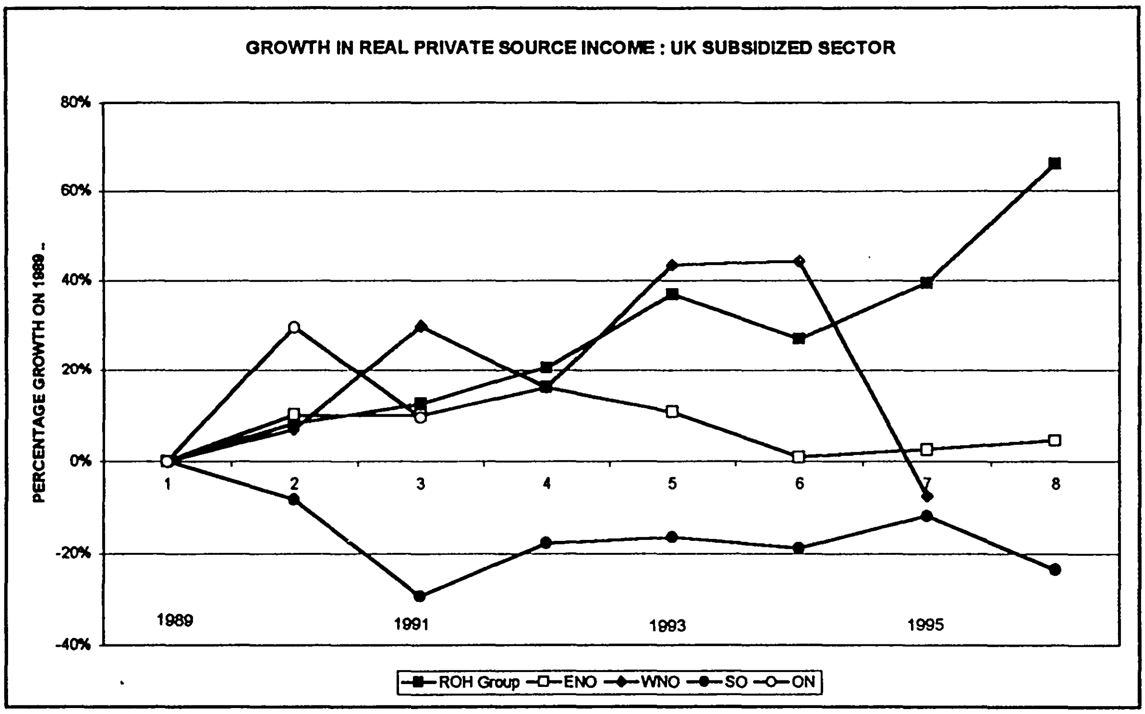


***Figure 7-11** : Growth in real private source income : UK subsidized sector*

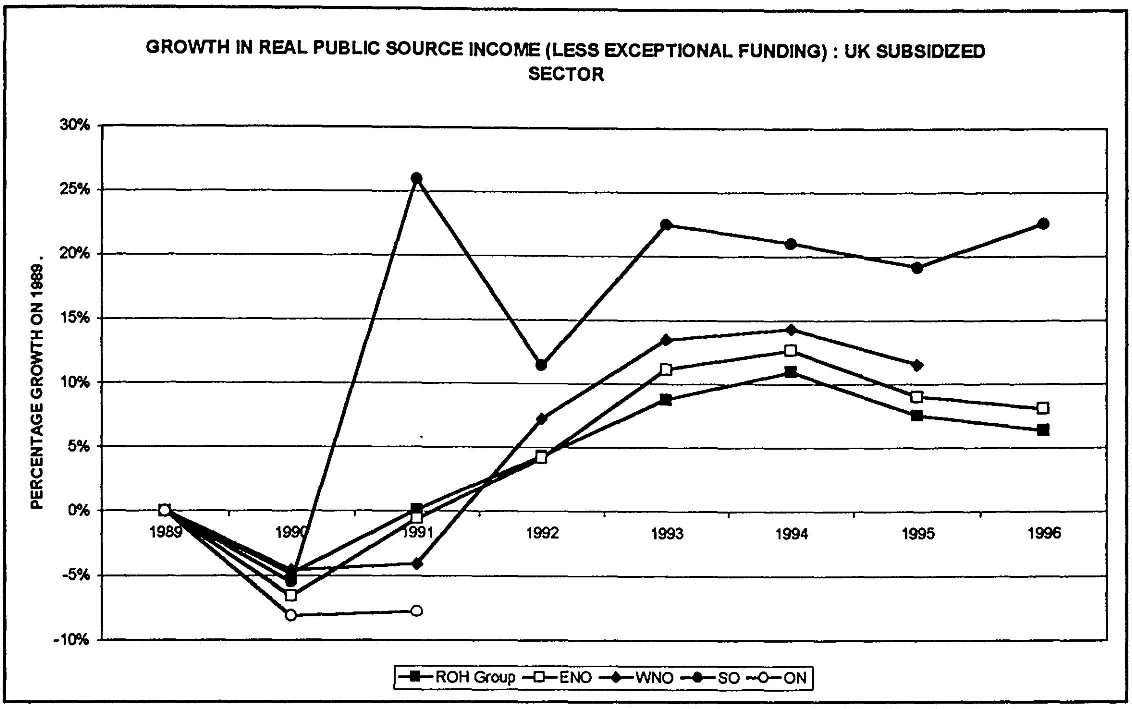


Figure 7-12 : *Growth in real public source income (less exceptional funding): UK subsidized sector*

Notwithstanding this, the underlying volatility of private source income patterns (Figure 7-11) is likely to have an overall effect on the sector as a whole. Any increase in private source income (assuming no real fall in public subsidy) will increase the potential spending power of the individual opera company. In years of relative abundance of private source income, the amount spent on individual performances of opera may increase. This, in effect, increases the apparent cost of opera.

Now, where it is assumed that a decline in *financial value* input results in a decline of *artistic value* standards, any reduction in private source income (during a recession, for instance) will pose a *threat* to *artistic value* standards, since real spend per performance is likely to drop. If *artistic value* standards are not to be allowed to decline, then it becomes incumbent upon government to save the company from *artistic value* decline, either immediately (by increasing its real grant), or in retrospect, by means of special deficit funding to cover the accumulated deficit which the company may have been forced to incur in its attempt to keep up previous year spending levels. There is indeed evidence to suggest that maintenance of *artistic value* standards is predicated on previous years' *financial value* input in precisely this way.

For instance, in 1994, Mathew Epstein, WNO's General Director resigned, reportedly *unhappy with the funding outlook for the company and frustrated in not being able to present more new productions and continue to develop* [the company's] *programme of work* (WNO ARA 1994). It is perhaps not without significance that the company's effective spend per performance was in this year at its highest level during the survey period (see Appendix 7-7). The prospects for its continued growth, apparently, did not look good.

Again, in 1995, it is reported that *in order to balance income and expenditure for the year, a number of productions, performances and overhead costs had to be cut back. The fall in income from the box office and co-productions* [private source income] *reflect this decline in activity. It was therefore an extremely difficult trading year which makes the financial result satisfactory. While the continuing lack of growth in grant income causes the company great concern...* (WNO ARA 1995). It has to be pointed out that the average real spend per performance in the 1990s (£90,000) was still 20% higher than in the 1980s (£71,000) suggesting an implicit intensification policy (i.e. that management wanted, and expected, to continue to spend more per performance). Note, Figure 7-12 shows that there was still real growth in the level of public subsidy available to WNO, but that its growth was not as *fast* as that of the previous year. The report of the WNO Board of Directors is therefore misleading in its use of the phrase: *lack of growth in grant income.*

Thus, whilst the company's *lever* on public funding was, in effect, broken (private source income had fallen), the apparent desire of its management to *speed* the growth of grant income nonetheless remained intact.

To a certain extent, attempts by WNO management to link the level of the company's subsidy award to increases in financial efficiency may explain the saw-tooth pattern of the taxonomy plot (Figure 7-10). Saw-tooth movement on the taxonomy plot typically suggests unsustainable growth. In WNO's case, this may be the result of *all out* fundraising efforts which, because they may exhaust all potential private sector sources in the short-run, cannot be repeated in successive years. This may also explain (at least from 1990) the historical volatility in the company's accumulated deficit (Figure 7-13 and Appendix 7-18).

Overall, however, whilst the individual attempt by WNO to exert leverage on public funding levels appears to have failed, Figures 7-11 and 7-12, considered together, suggest that there may indeed be a sector-wide effect. Public funding has shown continued real growth since 1989 (Figure 7-12), although in a cohesive way which suggests, again, the existence of pre-agreed public funding parities (see chapter 6). SO, for instance, despite its poor private sector funding performance (Figure 7-11) has benefitted just as much (more so, in fact) than WNO itself.

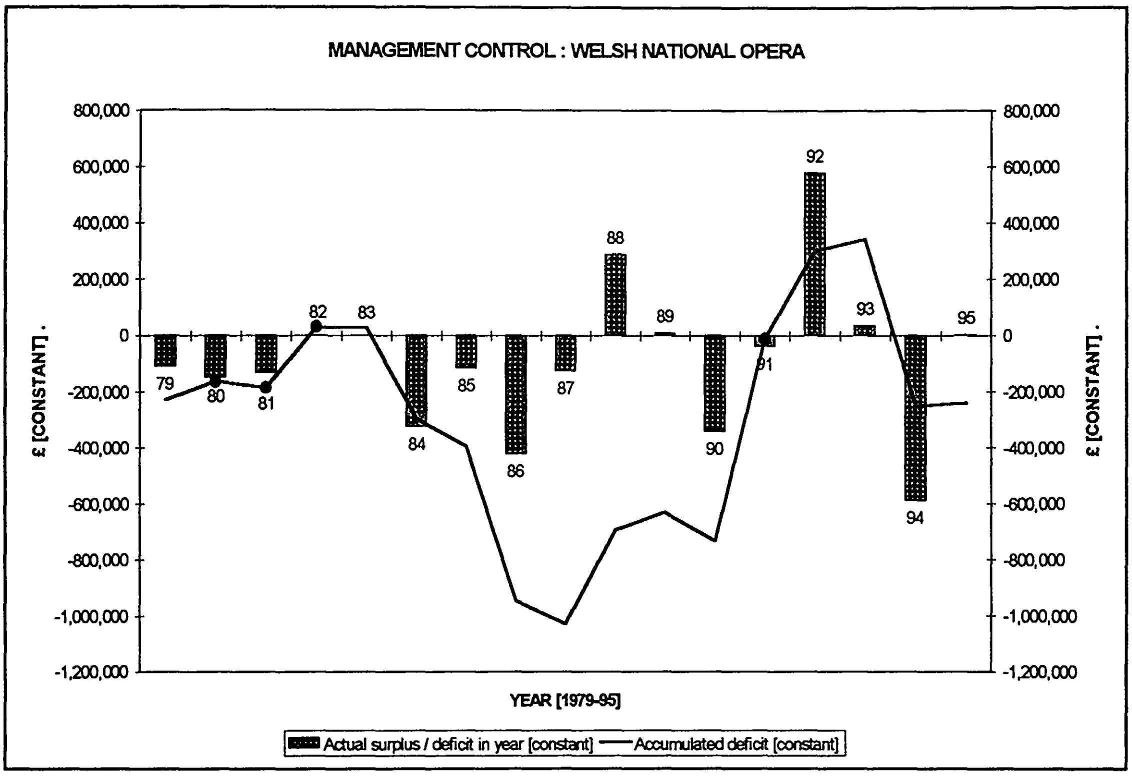


Figure 7-13 : Management control : Welsh National Opera

2 : Ambiguity in board level representation together with a non-transparent nomination process militates against accountability

Evidence of ambiguity in board level representation at WNO serves to illustrate a wider problem within the UK subsidized sector as a whole: that non-transparency in the board nomination process militates against accountability, making it difficult to establish, in any independent way, the precise motivation of boards, and the rationale of their composition, with respect to defence of the public interest.

During the financial year ending 1990, for instance, Mr Bernt HR Hudson-Davies CVO was appointed to the Board of Directors of WNO (WNO ARA 1990). The rationale for his nomination is obscure and it is therefore not certain whether Mr Hudson-Davies was invited to join the Board as the representative of a public body or as a private individual. At the time of his appointment, Mr Hudson-Davies's *other directorships* included: the Welsh Arts Council, the Cardiff Bay Arts Trust (in formation), the Cardiff Bay Development Corporation, and the Welsh Development agency - all public bodies of key significance in the local economic infrastructure (see Appendix 7-22).

If we assume that Mr Hudson-Davies was appointed to the Board as a public representative of the Welsh Arts Council, as seems feasible, then it needs to be asked what significance should be attached to his other public sector *directorships*? (We use the term directorship in its broadest sense, to include trusteeship, for instance). Does Mr Hudson-Davies (still a member of the board at the end of our survey period, 1996) represent a kind of public sector directorial *package*, i.e. representing all his interests at once, and on a basis of equal relevance? In which case, are there any limits here; are there any constraints on possible conflicts of interest? What is the value of such multiple representation and is it in the public interest that one individual should command a broad and, in effect, strategic influence over the distribution of public funds? If there are no constraints here, no visible checks and balances, then there is obvious threat to the independence of WNO as a charitable organisation, and indeed, to the public interest as a whole.

Equally, if Mr Hudson-Davies was appointed to the board as a private individual, then by what means does Mr Hudson-Davies maintain a distance between his private and public interests? Certainly, in terms of accountability, there is a distinct lack of specificity with respect to the rôle of such individuals within the context of the opera company Board of Directors.

The nature of this role ambiguity and the hidden rationale for Board member nomination also has potentially serious consequences for operation of the *artistic value* franchise itself.

It is not clear, for instance, whether there is connection between Mr Hudson-Davies's membership of the Board in 1991 and the WAC *deficit reversing grant* of £842,000 (in constant terms) which was negotiated in that year, or with the £175,000 real increase in the WAC general grant which was likewise negotiated for the following year. Was Mr Hudson-Davies on the Board at this time as a non-voting observer for WAC or as a full member of the WNO Board with full voting rights? If the latter is true (as seems to be the case from the financial reports) is it morally justifiable for one individual to sit, as it were, on both sides of the negotiating table, that is: to act as a public representative of a grant-awarding body *and* as a public representative of a grant-receiving organisation? This seems to undermine any possibility of substantive accountability. It is a situation which appears to hinge on trust, but trust without transparency.

Perhaps of more significance in terms of threat to the *artistic value* franchise, are the events surrounding the company's 1990 application to the Millennium Commission (which was for funds to build a permanent venue for WNO). Again, it must be asked: what was Mr Hudson-Davies's role? We note that although he had resigned from WAC in 1994, by 1995 he had become a member of the National Lottery Advisory Board for Wales (WNO ARA 1995). Now this does not sit comfortably with WNO's application (via the Cardiff Bay Opera House Trust) to the Millennium Commission, since the Millennium Commission itself overseas the disbursement of a portion of funds from the UK National Lottery. The ambiguity of the situation is compounded further by events which follow the failure of the Millennium Commission application:

> *Much time and effort was devoted by management during the year to supporting the Cardiff Bay Opera House Trust in its efforts to secure funding from the Millennium Commission for a music theatre of international standard in Cardiff which would provide a much needed permanent home for the company. It was a major disappointment that the proposed scheme was turned down by the Commission and consequently had to be abandoned. The company is now working with other interested bodies in Wales, including... the Cardiff Bay Development Corporation, with the aim of promoting an attractive scheme which will attract support* (WNO ARA 1996).

It would be impossible to say that there are no connections, here, between Mr Hudson-Davies's membership of the Board of WNO and his membership of the Cardiff Bay Development Corporation. The question is, what is the significance of this bi-lateral connection in terms of the public interest? What was Mr Hudson-Davies's rôle on the WNO board at the time, and who precisely did he represent? This problem is worth exploring

Appendix 7-22 shows the results of a comparison of Board composition and Board member interests across all companies in the survey for one financial year (the year ending 1995). The comparison shows that the kind of bi-lateral board membership represented by Mr Hudson-Davies (i.e. his membership of both opera company board and potential funder board) is not uncommon.

For instance, at ENO Mr Roger JL Bramble MA DL included amongst his other directorships the City of Westminster Trust and the City of Westminster Arts Council; the City of Westminster being a traditional funding source for ENO after the abolition of the GLC (Greater London Council) in the late 1980s (see Appendix 7-22). Again, public funders such as the City of Westminster Arts Council are entitled to send observers to client company board meeting, but *observers* are not equivalent to *members* with full voting rights. Mr Bramble certainly appears to have been appointed a full member in this latter sense (see ENO ARA 1995).

Appendix 7-22 also shows that, at SO, Mrs Carol Høgel and Dr Christopher Masters, members of Dunard Ltd and Christian Salvesen PLC, respectively, represent *patrons with directorial interest* (see ROH finding 6). Mrs Høgel was, for instance, still on the board of SO in 1997 when the *significant support* of the Dunard Fund was noted in the Chairman's Report (SO ARA 1997) although we do not know how significant or *material* that support was, nor the extent to which the Dunard Fund has supported SO in the past, since lists of sponsors and donors are not consistently provided in the company's financial reports. However, we do know, again from the Chairman's report, that in 1996 the Dunard Fund was the principal sponsor of the company's production of *Don Giovanni* (SO ARA 1996). In the case of Christian Salvesen PLC, it cannot be ascertained from the financial reports what level of sponsorship, if any, was given during the period of membership of the board by Dr Masters (he was Vice-chairman of the board in 1997). We do know, however, that Christian Salvesen PLC has been an important SO sponsor in the past and that the company's chairman in 1989, Sir Gerald Elliot, was at the same time chairman of the board of directors of SO (Norton 1989:140 and Percival 1989).

A more serious problem, however, is bi-lateral board membership associated with the UK National Lottery. Two individuals, representing three subsidized sector opera companies stand as a case in point: at ROH, Mr Percy J Butler CBE was also (in 1995) a member of Camelot Group plc. At ENO and ON, George HH Lascelles, The Rt Hon the Earl of Harewood KBE, was a member of the Lottery Promotions Company.

There is another issue here: aside from bi-lateral representation (which begs more questions about the rôle of board members than answers) there appears to be a strong element of multiple representation within the cultural sector as a whole. That is, representation on more than one major arts organisation by individual board members (see e.g. David Cohen, Mr Hudson-Davies, Appendix 7-22). It has to be asked whether it is in the public interest, and in the interest of the *artistic value* franchise, that the Earl of Harewood, for instance, should sit on the boards of ENO, ON, Opera da Camera, Opera Factory, the London Sinfonietta and the Leeds Festival, concurrently? One argument might be that access to an individual with such obvious special interest in the arts, and in particular, opera, is beneficial to the opera companies concerned (the board membership portfolio of the individual here becoming a measure of the apparent public spiritedness and knowledge of the arts of the individual concerned). But it must be asked whether such apparent public spiritedness is a sufficient criterion here: in what way are individuals, such as the Earl of Harewood, particularly qualified to oversee the use of large tranches of public subsidy in the arts? Are there any controls here; and how might the apparent authority of such key individuals, upon whom so much influence is concentrated, be challenged? More damagingly, what effect does this concentration of influence have on the development of individual opera company strategies? Clearly, ENO and ON, for instance, cannot exist in true competition, since they share a key board member (Harewood as Chairman of one and Vice-Chairman of the other, despite disaggregation of ON in 1980). This may explain the homogeneity, the lack of differentiation which we have found within the UK subsidized sector (see chapter 6). Table 7-3 illustrates this point, showing the degree of multiple representation which existed within the opera sector, alone, in 1995.

BOARD MEMBER - STATED OCCUPATION	BOARD	OTHER OPERA COMPANY DIRECTORSHIPS IN 1995
The Rt Hon the Earl of Harewood KBE - Peer of the realm	ENO	Opera North Opera da Camera Opera Factory
Dr J David Cohen - General medical practitioner	ENO	English Touring Opera
Sir John Tooley - Arts consultant	WNO	Opera London Compton Verney Opera Project Friends of Covent Garden
Mr Peter S Philips - Chartered accountant	WNO	City of Birmingham Touring Opera
Source : See Appendix 7-22		

Table 7-3 : *Opera directorships held by UK subsidized sector board members (1995)*

Table 7-3 also begs another vital question, specifically: why the self-styled arts consultant should enjoy representation, indeed multiple representation, on opera company boards? Sir John Tooley, for instance (see Table 7-3), provides a prime example here. As a board member of over 10 major arts organisations, including 2 opera companies (see Appendix 7-22) it has to be asked whether Sir John Tooley can legitimately be said to act in disinterested fashion, as a consultant. Consultancy, as a business activity, is predicated on objective detachment (distance) of consultant from client. By definition (i.e. accepted practice) a consultant is able to give his or her professional services in an objective manner precisely because he or she is not *involved* with the client organisation.

There is a very significant ethical question here. If Sir John Tooley gives his services as an arts consultant on a gratis basis, without formal contract (members of the board, as non-executive members of the management team, do not receive remuneration, other than expenses) then how can the public interest be properly safeguarded? As it is, the general public cannot know that the arts consultant is not merely representing his or her own professional interests and enjoying the benefits of a free platform for self-promotion at the same time. It is a very serious point.

There certainly seems to be need for greater transparency in the nomination process itself: at ENO, for instance, only five members of the eighteen-strong board form the nominations sub-committee (see Appendix 7-22), and the criteria for nomination are nowhere stated. In addition, there needs to be greater specificity regarding the roles of individual members. Most importantly, it needs to be demonstrated why concentration of membership around an apparently interlinked group of individuals (see Table 7-4) can benefit the *artistic value* franchise. What precisely is the vehicle of nomination that allows such interlinkage to occur[1]?

BOARD MEMBER - STATED OCCUPATION	BOARD	DIRECTORSHIPS HELD IN COMMON IN 1995
Robert Gavron CBE - Company chairman	ROH	National Gallery Publications Ltd
Bamber Gascoigne - Author & broadcaster	ROH	National Gallery Publications Ltd
The Rt Hon the Earl of Harewood KBE - Peer of the realm	ENO [C]	Harewood House Trading Ltd (etc)
Sir Nicholas Goodison - Company director	ENO [V]	Harewood House Trust Ltd
The Rt Hon the Earl of Harewood KBE - Peer of the realm	ENO [C]	London Sinfonietta, Opera Factory
Dr J David Cohen - General medical practitioner	ENO [ap]	London Sinfonietta, Opera Factory
Sir Donald Walters - Company director	WNO [V]	Development Board for Rural Wales
Mrs Christine E Lewis - Retail consultant	WNO	Development Board for Rural Wales
Sir John Tooley - Arts consultant	WNO	Wigmore Hall
Bernt Hudson-Davies CVO - Company director	WNO	Wigmore Hall Trust Ltd
The Rt Hon the Earl of Harewood KBE - Peer of the realm	ON [V]	Sports Aid Foundation Ltd
Cllr Bernhard P Atha - Chair Leeds Culture Services Committee	ON	Sports Aid Foundation Ltd
Clive W Leach - Company director	ON	Yorkshire Enterprise Ltd
John Gunnell - Member of Parliament	ON	Yorkshire Enterprise Ltd
John A Graham - Chief executive	ON	Huddersfield Contemporary Music Festival Ltd
Professor George Pratt - Professor of music	ON	Huddersfield Contemporary Music Festival Ltd
[C = Chair, V = Vice-chair, ap = artistic policy sub-committee]		*Source : see Appendix 7-22*

Table 7-4 : Directorships held in common by UK subsidized sector board members (1995)

7.5 Opera North

Taxonomy plot data for ON is presented in Appendix 7-9. Supporting financial data, as extracted from the published accounts is presented in Appendix 7-10.

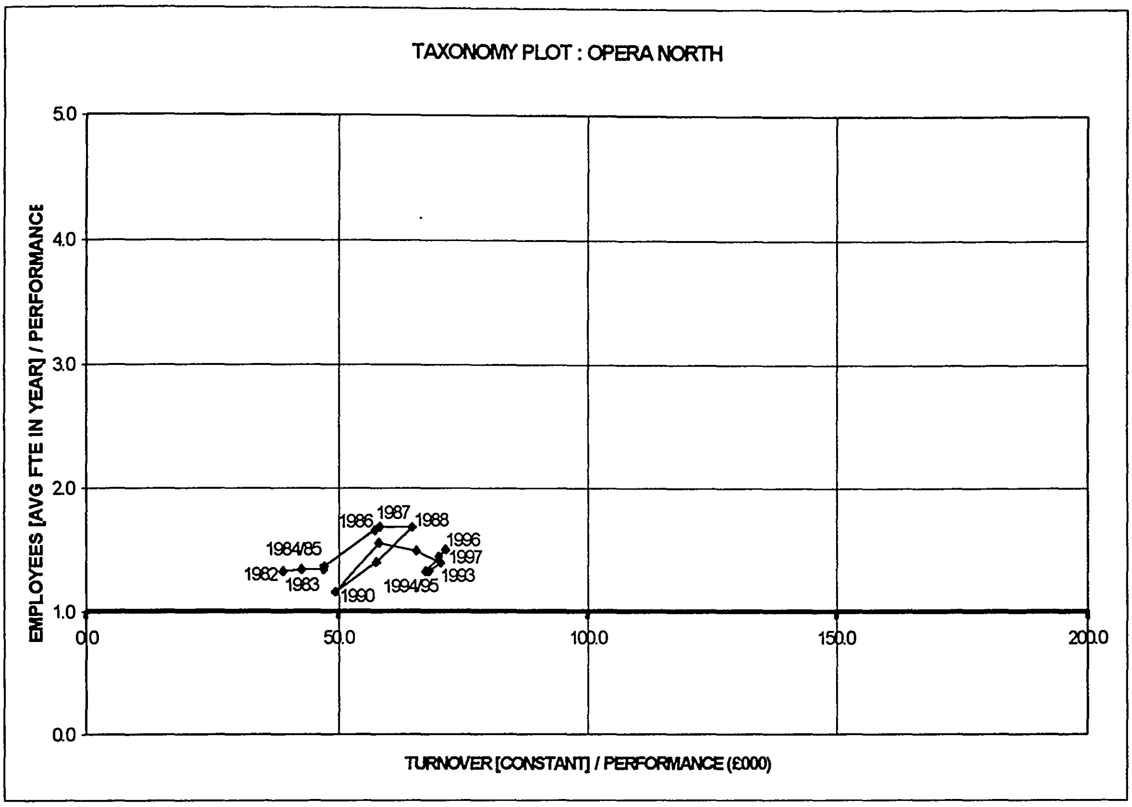


Figure 7-14 : Taxonomy plot : Opera North

1 : ON appears to demonstrate greater financial efficiency than SO, its equivalent in terms of size (turnover)

Quantitative comparison of ON and SO suggests that ON, during the 1990s, has overtaken SO in terms of financial efficiency. Table 7-5 shows the results of this comparison.

PARAMETER	PERIOD	ON	SO	DIFFERENTIAL
SIZE	1982-84	£4.8m	£6.5m	**-£1.7m**
[Real turnover]	1992-94	£7.6m	£7.6m	**None**
OUTPUT	1982-84	111	104	**+7**
[Mainscale performances in year]	1992-94	112	96	**+16**
LABOUR INTENSITY	1982-84	1.34	2.20	**-0.86**
[Employees per performance]*	1992-94	1.41	1.60	**-0.19**
FINANCIAL INTENSITY	1982-84	£43,000	£64,000	**-£21,000**
[Real turnover per performance]	1992-94	£68,000	£80,000	**-£12,000**
* Note: each additional increment of labour intensity (1.00) represents one additional salary per performance (approximately £15,000-£25,000)				
Source : see Appendices 7-1 to 7-10				

***Table 7-5** : Change in comparative financial efficiency of Opera North and Scottish Opera*

From Table 7-5 it can be seen that by the early 1990s, whilst equivalent in terms of size, ON was producing more opera for less financial input, or cost, than SO.

What does this finding signify? Those who argue, for instance, that there exists a direct relationship between *financial value* input and *artistic value* output would be forced to conclude that ON's *artistic value* standards must, by default, be lower than those of SO, in the 1990s, because the company spends less per performance than SO.

The comparison is an interesting one because the two companies share a similar remit: mainscale opera production with touring to local communities. It is legitimate to ask, therefore, whether audiences in Scotland enjoy a better artistic service than those served by ON in the north of England?

If, for the sake of argument, we assume that there exists no demonstrable difference in the respective artistic standards of the two companies, then what is the rationale which permits SO to operate at a level of greater labour and financial intensity than ON? To see this, compare Figures 7-14 and 7-1.

We simply have insufficient data in the financial reports of ON and SO to take our analysis further (there is neither a consistent nor comparable breakdown of expenditure, for instance). We can only assume, in the absence of adequate data, that the differential, in terms of real spend per performance, between ON and SO is explained by SO's ownership of the Theatre Royal. Whilst other factors may be involved (e.g. possible differences in average remuneration levels), fixed asset structure (degree of establishment) represents the only significant difference in overhead structure between the two companies and may explain the apparent inefficiency of SO (see also SO finding 5).

Now this is significant. If there exists no demonstrable difference in *artistic value* between ON and SO performances, then the rationale for funding this additional overhead at SO (the Theatre Royal), becomes questionable in the light of these results. The burden of theatre ownership is a burden which could equally well be borne by the private sector, for instance. If there is no demonstrable difference in *artistic value* between ON and SO, what is the value to the taxpayer and to the *artistic value* franchise as a whole, of the additional establishment cost at SO?

Moreover, if ON were, like SO, to take the *initiative* (ibid SO ARA 1983) and undertake to purchase a theatre, would public subsidy for such *initiative* be justifiable? We would certainly require, in the interests of accountability and equity, that the benefits be demonstrated. There does, for instance, seem to be a difference between ON and SO in terms of stability. Whereas SO has experienced persistent problems in terms of control of its accumulated deficit (see Figure 7-3 and SO finding 5), ON exhibits a certain stability, albeit in deficit (see Figure 7-15 and Appendix 7-19). It would be a brave policy maker who permitted the ON model to gravitate towards that of SO. Perhaps the question is this: given the evidence regarding financial efficiency, why should SO retain ownership of a theatre when it has a touring remit similar to ON? Indeed, what is the connection between ownership of a theatre and *artistic value*?

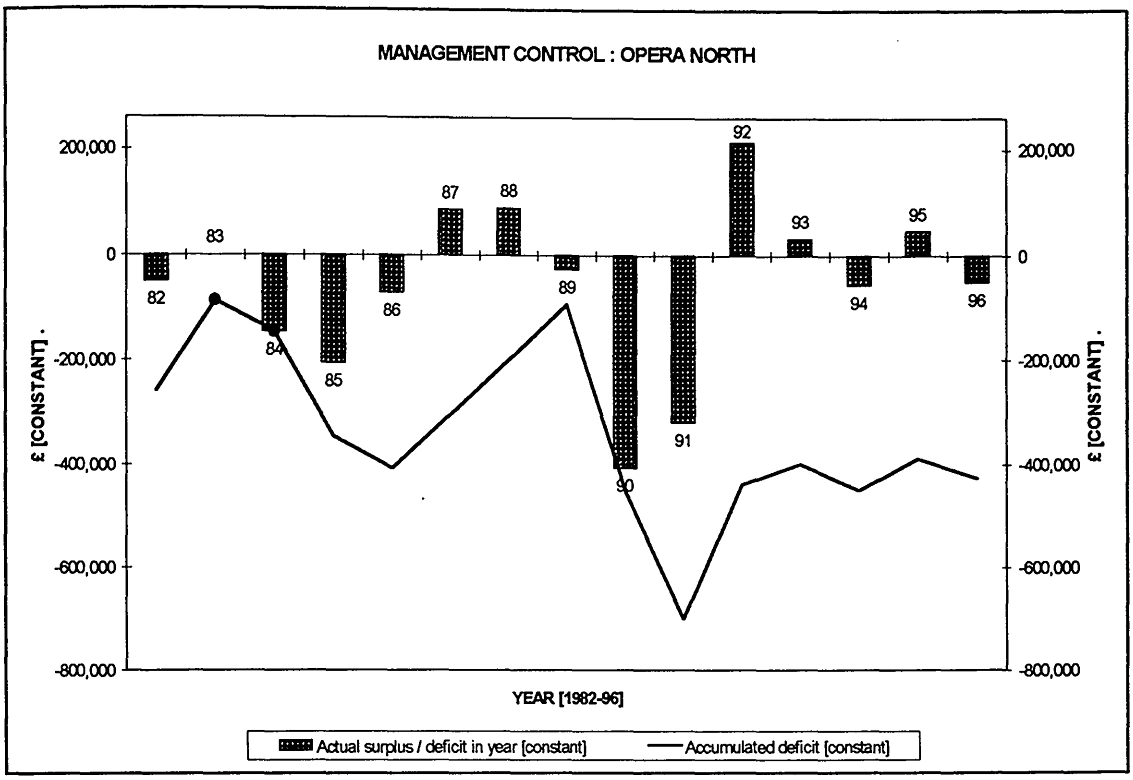


Figure 7-15 : Management control : Opera North

7.6 Glyndebourne Productions

Taxonomy plot data for GP (which comprises GFO+GTO) is presented in Appendix 7-11. Supporting financial data, as extracted from the published accounts is presented in Appendix 7-12.

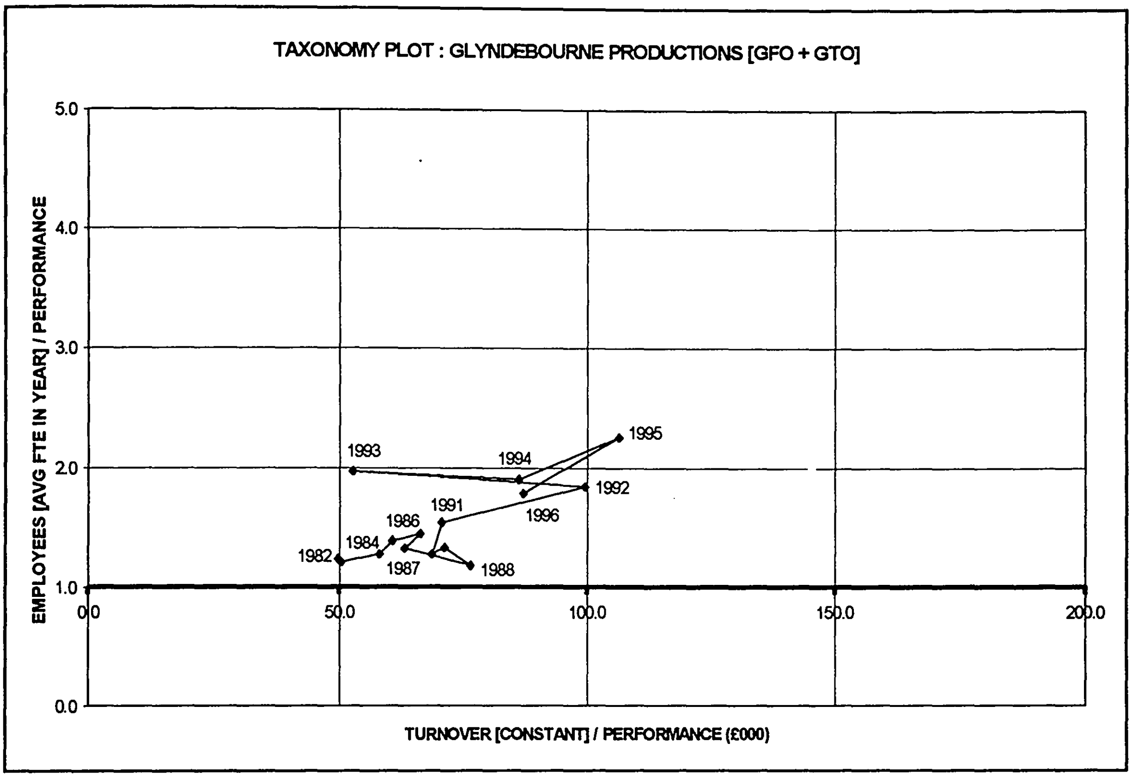


Figure 7-16 : Taxonomy plot : Glyndebourne Productions

1 : The stability exhibited by GP through a decade of sustained expansion and intensification indicates strong management control

Over the decade 1981-91 (1991 being the last year before preparation for rebuilding of the home venue) GP expanded its output by one third, increased its real spend per performance by over 40% and yet remained stable. Returning a current surplus in 8 of the 10 years considered, management succeeded in maintaining a general reserve (equivalent to an accumulated surplus) of almost constant value over the period. This indicates strong management control.

Figures 7-16 and 7-17 demonstrate the strength of this control and the stability it has produced. The *tightness* of the taxonomy plot data up to 1991 (Figure 7-16) suggests an efficient operation and indicates the ability of management to set and work within budgetary targets. Intensification during this period is relatively slow and sustained, for instance, compared with ROH, ENO, WNO and SO, over the same period (Figures 7-5, 7-8, 7-10, and 7-1 respectively).

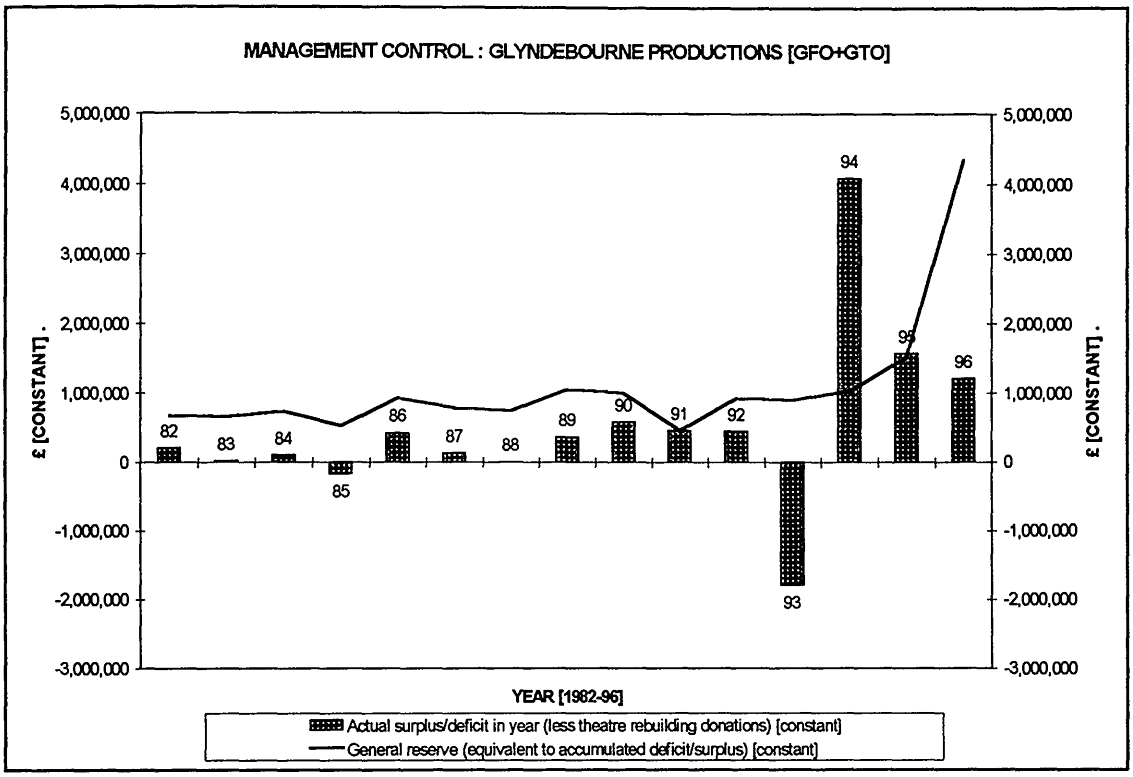


***Figure 7-17** : Management control : Glyndebourne Productions*

Figure 7-17 illustrates the stability of GP in terms of its trading record (for data see Appendix 7-20). The *flatness* of the general reserve curve shows that GP exhibits stability, and stability in surplus (compared with ON which appears to show stability in deficit, see Figure 7-15).

The following table of comparison (Table 7-6) shows the results of this control in terms of the key parameters: turnover, performances, and employees.

PARAMETER		1982-86	1987-91	% CHANGE
SIZE	ON	£5.0m	£5.8m	**+16%**
[Real turnover]	SO	£6.6m	£7.2m	**+9%**
	GP	£5.4m	£7.8m	**+44%**
OUTPUT	ON	108	102	**-6%**
[Mainscale performances in year]	SO	102	106	**+4%**
	GP	94	111	**+18%**
LABOUR INTENSITY	ON	1.4	1.48	**+6%**
[Employees per performance]*	SO	2.13	1.84	**-13%**
	GP	1.32	1.33	**+1%**
FINANCIAL INTENSITY	ON	£47,000	£58,000	**+23%**
[Real turnover per performance]	SO	£66,000	£68,000	**+3%**
	GP	£57,000	£70,000	**+23%**
* Note: each additional increment of labour intensity (1.00) represents one additional salary per performance (approximately £15,000-£25,000)				
Source : see Appendices 7-1 to 7-12				

Table 7-6 : *Intercompany comparison of financial efficiency*

Whilst in the early 1980s, GP, along with ON, was the smallest of the group of three companies in terms of real turnover, by the late 1980s it had become the largest (around 8% larger than its nearest neighbour, SO). Significantly, this had been achieved via a 44% increase in turnover in real terms (fuelled in the main by private source income), an increase far in excess of those achieved by the two subsidized sector companies, ON and SO (at 16% and 9% respectively). Whilst we cannot compute the public income factor for GP (due to insufficient data in the financial reports) we do know that in 1995, for instance, GTO was receiving only 30% of its total income via public funds, whilst GFO received none, the latter relying entirely on: box office income (70%), sponsorship and donations (4%), programmes, catering and merchandising (10%), and the support of the Glyndebourne Festival Society (16%) (GP ARA 1996).

The strong funding basis of GP, however, is not a sufficient explanator of its stability. Looking again at Table 7-6, it is apparent that GP has consistently tied the level of the company's output to that of its real spend per performance. In brief, GP has maintained the relative strength of its real spend per performance by controlling output (the number of mainscale opera performances each year). Taking the group of three companies as a whole, GP has achieved dominance in terms of real turnover per performance. In the early 1980s the company maintained its spend by working at a lower level of output than either ON or SO. By the late 1980s, however, GP had overtaken its subsidized sector counterparts in terms of output (an average 111 performances per year between 1987-91).

The same control appears to be true of labour intensity. Whilst GP added significantly to its staff between the early and the late 1980s (see Appendix 7-11), labour intensity remained relatively steady. This is in contrast to SO, which can be seen to have reduced its labour intensity by some 13% between the two periods (a factor which may be explained by overtrading, see SO finding 5). Only ON remains more steady in this respect.

These results confirm the ability of GP management to pursue and direct the company towards long-term goals. It must be asked, however, why a largely private sector operation (as represented by GP) should have succeeded in maintaining a consistent and stable operation through a period in which its subsidized sector counterparts apparently could not? The comparison is all the more pointed given that GP, like SO, owns its home venue and operates with a board of only six members (less than half the size of the ON and SO boards respectively; see Appendix 7-22). Whilst the relatively large board sizes of the subsidized sector companies may reflect the traditional view that, the broader the representation, the greater the defence of the public interest, these results suggests the possibility that smaller, more focussed boards result in greater financial efficiency, which, in the long-run, may better facilitate the creation of *artistic value* and therefore better safeguard the public interest.

8. SUMMARY

The major finding of this study is that the real cost of opera in the UK subsidized sector (as measured by turnover) has been permitted to double since the 1970s. There is no evidence of any attempt by government or by individual sector members to constrain what was shown to be an uninterrupted rise in costs. Moreover, no single company exception to the rising trend was found. Driven primarily by ROH, the rise in real cost has also taken place within an environment of increasing financial constraint (notably the two oil shocks of the 1970s, significant real cuts in government expenditure during the Thatcher years, the recessions of the early 1980s and early 1990s, and the ongoing programme of European Monetary Union). This fact, we argued, adds increasing importance to the opportunity costs associated with funding opera, and may lead to radical change in UK Government policy. Two outcomes are likely if the trend in rising costs is left unchecked: sudden withdrawal of support (effective privatisation), or fundamental redesign of the subsidy award process and opera infrastructure (adoption of alternative funding and operational models).

We found that the *powerhouse* model, which saw its nascence in the industry nationalisation ethos of the mid-1940s, still persists in the current era. Evidence showed that within the UK subsidized sector a *powerhouse driver-follower* hierarchy, led by ROH and followed by ENO, WNO and SO respectively (with ON as late entrant) had remained unchanged across the survey period. Indeed, preservation of the hierarchy led us to conclude that public subsidy is awarded to sector members, in the current era, less on the basis of *financial value* need or of *artistic value* merit, and more on the basis of pre-agreed funding parities. This was a key finding: that the *powerhouse* model appears to be sustained by the existence of pre-agreed public funding parities *despite* changes in individual company performance. From this we concluded that the UK Government, via its agent, the ACGB, has chiefly been concerned with issues of *service provision* and access (not *artistic value* per se), and that there is a belief amongst policy makers that externalities, the theoretical wider social benefits which may accrue from subsidization of opera, are best delivered via a stable, if not static, infrastructure. Indeed, no single company has ever been permitted to challenge the *powerhouse* (ROH) in its position as effective *driver* of quality or *artistic value* within the sector.

We argued that lack of innovation in the mechanism of delivery of the artform (static and heavily centralised opera infrastructure) means that there has been no substantive innovation in the artform itself. Indeed, the complete absence of breakout from the *powerhouse* hierarchy (we demonstrated the existence of an opera value *shift* in our taxonomy data) confirms that there has been no substantive *artistic value* innovation within the sector within the last decade at least. This, together with results which showed that the UK subsidized sector exhibited strong homogeneity, indicated continuity of the *public service provision* model, a characteristic of which is treatment of *artistic value* as an exogenous variable or *given*. Certainly, *artistic value* factors do not appear to influence the subsidy award to individual companies.

We next demonstrated, within the context of the UK subsidized sector, the problematic nature of the interrelationship which exists between subsidy policy and individual company gains in financial efficiency. We argued that the apparent operation of pre-agreed public funding parities, together with reliance on accounting ratios as guides to subsidy award, act to perpetuate a central contradiction in the subsidy award system for opera in the UK. That is: because subsidy policy does not respond to changes in the financial efficiency of individual opera companies, those companies least in need of subsidy (i.e. those best able to maximize private source income) may be permitted to capture an increasing proportion of subsidy. In this context, we showed that by the end of the study period, ROH had increased its subsidy share, despite significant gains in financial efficiency. We showed that whilst this introduced inequity (subsidy capture by companies), attempts to relate subsidy award to changes in financial efficiency would result in a disincentive effect and possible collapse of the funding system altogether, since those companies best able to generate private source income would effectively be penalised for their financial efficiency gains.

We also showed that the apparent operation of pre-agreed funding parities tends to promote social exclusion (a narrowing of the *artistic value* franchise) as well as inequity in the distribution of subsidy (capture by audiences or audience groups). Exclusion, we argued, occurs where a company's audience becomes concentrated around those groups least sensitive to ticket price increases (higher income groups); and capture, where the company's subsidy share is maintained despite demonstrable strengthening in the buying-power of its audience. In this context, we showed that, despite evidence of a strengthening in the buying-power of its audience (ability to withstand real increases in ticket prices), ROH still received the same (if not marginally increased) subsidy share at the end of the study period as it did at the beginning. We concluded from this that although subsidy policy is designed, in principle, to maximize the key distributive and egalitarian goal of *access for all* (a consumer subsidy function), in practice, it may operate to promote *access for the few* because of the mechanism of its delivery (a producer subsidy form).

Our study of the UK subsidized sector also revealed certain intrinsic impedimenta to full and free participation in the *artistic value* franchise (in addition to the problem of subsidy capture by audiences). Patronage, in its strictest sense (i.e. patronage which is not *disinterested*), was found to persist in the 1990s. The potential power of private patrons with directorial interest (i.e. those with board positions), and anonymous donors, was shown to mitigate against accountability, threatening the independence of individual opera companies as charitable arts organisations. We argued, that because of poor transparency in the reporting of private source income, the apparent public spiritedness of private patronage (and anonymous donation) does not preclude the possibility of patronage as a vehicle for personal advancement by private lobbyers and those with a special interest in gaining access to establishment circles. This, we argued, was not an unlikely outcome given the perceived rôle of opera companies as institutions of national importance, and findings which showed the extent of board membership within the sector by Members of Parliament, local authority officials and other public sector representatives. We also demonstrated that private patrons with directorial interest (i.e. those with board positions) enjoyed the possibility of disproportionate control over the *artistic value* agenda by exercising conditions on the award of patronage. We described this potential control of the *artistic value* agenda, since it implied a *property* qualification, as a form of *artocracy*.

Interested patronage within the UK subsidized sector was found to be a source of major inequity in the operation of the *artistic value* franchise since it permitted disproportionate control of the *artistic value* agenda. Direct evidence of the exercise of conditions upon artistic goals by patrons with directorial interest was found at ROH in the 1990s. It was concluded that such individuals could enjoy subsidy capture once, by exercising a potentially disproportionate control of the *artistic value* agenda, and twice, as opera consumers, by benefitting from subsidized access. The pattern of patronage with directorial interest which was apparent at ROH, also revealed a potential barrier to radical new artistic and financial departures since it promoted preservation of the status quo. Ultimately, the difficulty of removing or overruling board members directly associated with funding sources was seen as the natural outcome where a lack of adequate checks and balances was in place. It also meant that the opera community fear of the power of sponsors was of less significance than the power of internal or interested patrons.

The chief traditional explanation of rising costs in the performing arts, the Baumol and Bowen thesis (the *productivity lag* or *cost disease* model) was presented and discussed. Results from the parametric study showed, however, that the thesis was not a sufficient explanator of real cost rises in opera because it assumed a single and external causal factor (labour cost pressure caused by inter-industry productivity differentials). From a study of ROH cost data, it was found that no single factor explains the overall rise in the real cost of opera, and, in addition, that intrinsic factors (active investment and / or passive cost creep) were likely to account for a significant proportion of the cost rises examined. This issue was explored further and it was found that budgeting policy within ROH had remained static over the long-run, did not reflect expected variability in the growth of component cost categories (an outcome also posited by the Baumol and Bowen thesis) and therefore suggested a degree of immunity from the external environment. We inferred from these results that some functions or departments within ROH must have experienced periods of feast relative to the famine of others; that there had been little active change in the pattern of investment (distribution of *financial value* input) at ROH, and that there therefore existed an inflationary process intrinsic to the international opera community itself. This we termed *opera value inflation.*

We argued that *opera value inflation* is most probably imported into the UK from those countries in which opera receives more generous levels of public funding; that resultant purchasing power differentials between companies in the international opera market cause the price of various factors of production to rise. This occurs because those companies with the greatest purchasing power effectively become factor price setters within the international market as a whole. We argued, however, that the *star system* (the cultivation of a perceived élite of artists which results in a self-generating system of labour scarcity value) is not a sufficient explanator of *opera value inflation* since the international sourcing of factors of production influences the entire cost base of the individual opera company (labour and non-labour costs). This, we argued, is caused by the existence of *artistic value* paradigms such as production styles. Using an example to illustrate our case, we argued that the scarcity value of the guest opera director (a labour input cost) coupled with the derived costs of the production style associated with the individual director (comprising many materials or non-labour costs), together acts to exert an inflationary effect on the purchasing company's total costs. To this extent, we argued that the *star system*, because it does not take account of the derived costs associated with *artistic value* paradigms, does not offer a sufficient explanation of *opera value inflation.* However, it could not be ruled out, because of non-separability and non-transparency in the reporting of guest artist fees, that the total labour costs (full-time equivalent employees, guest artists and sub-contract labour) together, comprise a major contributory factor to the real rise in the cost of opera.

Aggregate results from the UK subsidized sector also revealed the pursuit of economies of scale. These economies were achieved through management of the yearly production portfolio: specifically, a narrowing of the yearly production portfolio coupled with extension of the average production run was discovered. This, we concluded, would produce economies by eliciting a reduction in total production cost and concurrent increase in production cost recovery. This appears to indicate response by individual subsidized sector companies to *opera value inflation*. We argued that the cost of compliance with international *artistic value* paradigms (stylistic canons which, in effect, represent international quality standards), may force the pursuit of such economies. This occurs because control of the level of *financial value* investment required to meet a given international standard will tend to lie with those overseas companies which lead the international sector in terms of factor purchasing power.

A marked preference for investment in overhead (greater *establishment*) was found across all companies in the study. This, we argued, represents an investment in security, since investment in overhead (*establishment*) may offer the best defence against potential loss or erosion of subsidy. Indeed, the greater the investment in *establishment* (such as theatre ownership and full-time staff), the greater the potential cost, in terms of political embarrassment, of the company's failure. We contrasted this *establishment* model (high financial intensity, high labour intensity) with the *production* model (low financial intensity, low labour intensity), showing that whilst the *production* model offered greater flexibility, there appeared to be no advantage, in the context of current subsidy policy, to its adoption. Whilst OR, in terms of our taxonomy data, illustrated the archetypal production company, all other companies in the sample, including GP, were seen, despite changes in the environment, to be moving towards greater *establishment*. In the case of GP, investment in *establishment* (rebuilding of the Glyndebourne opera house in the early 1990s) was thought to reflect a more considered, commercial rationale for intensification, since it was demonstrated that GP depended to only a relatively small extent upon public source income. It was noted that despite this major capital investment, GP still remained less *established* (intense) than the majority of companies in the UK subsidized sector.

Results from the parametric study were also discussed on a per company basis, and a number of themes emerged. Special attention was given to SO in this analysis due to the extended data-run (1962-96) which was available for this company.

Results from SO reveal overexpansion of the company in the years immediately following incorporation (1962). Evidence showed that the primary goal of management in these years was establishment of the full-time presence of the company, and that the expansion which this necessitated had been driven faster than available internal resources would allow: a major failure of budgeting control was discovered. The rationale for this immediate expansion was discussed, and it was concluded that in the period of genesis of an opera company, investment by management in personal security (establishment of salaried positions) will tend to determine the choice of operational model adopted by the company, and therefore its future *artistic value* choices. Moreover, it is also possible that the company may have become too rapidly acculturated to public source income in the 1960s, and that this may have set the management culture which was to prevail thereafter: inadequate management control was shown to be a feature of the company's history.

Results from SO also demonstrate that the fixed asset structure of an opera company can, in certain circumstances, effectively define its *artistic value* goals. The decision by SO management to purchase the Theatre Royal in 1974 was discussed in this light. Analysis of SO data showed that investment in installed capacity had introduced immediate constraint on repertoire planning. Furthermore, it was also concluded that investment in installed capacity ultimately constrains freedom to innovate, since it increases the riskiness of artistic experimentation. Evidence suggested that the potential negative outcomes of such experimentation (loss of core audience and substitution of audience groups without net benefit in terms of total audience size) were, as a general rule, not properly considered by opera managements. Moreover, there was strong evidence to suggest that installed capacity at SO had promoted a centralising tendency in repertoire planning, that it had necessitated a mass marketing approach to maintain a balance of interest in programming, rather than a resource-based approach to allow the exploitation of company artistic strengths. Overall, evidence suggested that for the theatre-owning opera company, pressure to recover overhead associated with installed capacity means that *artistic value* must, by necessity, become secondary to the pursuit of economies of scale (*financial value* issues).

Overtrading and long-term disequilibrium were seen to be features of SO activity during the 1980s. This was shown to be the result of investment in fixed assets in the previous decade. Coping strategies were seen to include postponement or deferral of costs, which, whilst appropriate in the context of short-term firefighting, did not, it was argued, translate into an adequate long-term strategy. This was argued because the effects of cost deferral may promote financial instability. Certainly, results confirmed that repeated rescue funding had been a feature of SO's history.

Overall, results from SO showed that internally generated financial constraints may be as significant to the opera company, if not more so, in terms of effect on artistic freedom, than those which originate from the external environment. The traditional argument put forward by the UK opera community, that lack of adequate public funding (an external factor) accounts for poor company financial efficiency, is not sufficient. Results from SO show that self-imposed capacity utilisation problems, failure to develop adequate budgeting and control mechanisms, lack of appropriate internal feedback, exposure to unqualified risk (random experimentation with repertoire mix), and short-termism (*boom and bust* behaviour) are all major contributory factors.

Results from ROH and ENO revealed a lack of concern with the mechanisms of accountability. Poor record-keeping and poor response management by ROH (and ACE) meant that basic performance data pertaining to the activities of selected companies within the ROH group, could not be obtained. Moreover, where data was available, key sources (ROH and ACE) did not agree. This impeded research and added complexity to preparation of the data set used for the parametric study. This, together with inconsistent reporting of ACGB *Incentive Funding*, discovered in ENO financial reports (the primary mechanism of accountability for charitable organisations), demonstrated that subsidy award criteria appear to be neither adequately defined nor adequately monitored.

Subtle change in the basis of operation of the *powerhouse* (ROH) indicated the existence of policy creep. It was found that the contribution of opera to total output at Covent Garden (measured by number of performances per annum) had reduced over the period studied. No evidence was found to suggest that this was the result of active policy or of deliberate artistic or financial strategy. Indeed, it could not be explained from available evidence why this change to the *powerhouse* had been permitted. Specifically, it could not be explained in what way diminution of the rôle, and therefore apparent importance, of opera at ROH could be justified. This, we concluded, was particularly problematic given results which showed, first, that there had been continued real growth in the value of subsidy awarded to ROH and, second, that ROH had been permitted to accelerate away from its *powerhouse followers* in terms of financial intensity (effective spend per performance).

The particular pattern of ACGB *Guarantee* funding observed in ROH financial reports, suggested that the *powerhouse* has been permitted to enjoy a strong degree of immunity from the external environment. It was not possible to judge the strength of management control (the ability to set and work within budgets) at ROH, since any current deficits which did occur, particularly in the 1980s, were seen to be immediately absorbed by special means. That these special means consisted, in the main, of ACGB *Guarantee* funding (a reactive funding mechanism) was seen to be problematic. Specifically, it could not be ascertained from the company financial reports what specific criteria governed the award of this special funding nor, therefore, the year to year basis of its justification. It was concluded that retrospective funding of this nature, where there is non-transparency, may result in the reward of poor management control, and, in the context of a rising trend in the real cost of opera, may result in the reward of *repeatedly* poor and *increasingly* poor management control. This was seen to be a major problem in terms of both accountability and subsidy policy design.

Results from ENO revealed willingness on the part of management to embrace unqualified risk, and willingness, therefore, to risk the viability of the company. Failure to safeguard against the financial risk associated with a mid-1980s overseas tour was seen to indicate management incompetence. This incompetence, it was demonstrated, resulted in short-term destabilisation of the company and could, it was argued, be interpreted as the outcome of a lack of skill in risk assessment. Equally, there was evidence to suggest that management's actions reflected not only a belief in the indefeasibility of its subsidy award, but a belief that any necessary rescue funding would be forthcoming by default. This, together with non-consistent and non-transparent treatment of ACGB *Incentive Funding* in ENO reports, suggested a strong degree of complacency within the subsidized sector, not least on the part of the ACGB as government agent. Moreover, it was argued that there existed no clear rationale for overseas touring, since the reduction in domestic supply which it had been shown to effect (in the case considered), logically resulted in a negative impact on *access*, the key distributive goal of arts policy. In the absence of demonstrable *artistic value* benefits, and other potential externalities, it was concluded that the case for overseas touring has yet to be properly articulated.

Analysis of the composition of the boards of the sample companies also revealed the existence of unaddressed accountability problems. Bi-lateral and multiple board level representation was discovered to be a significant and problematic feature of the UK subsidized sector companies. Bi-lateral representation (concurrent membership of opera company board and potential public funder board) was seen to introduce rôle ambiguity, effectively prohibiting the possibility of substantive accountability, since it was not clear in what way such representation was shown to work *in* the public interest, without causing potential *conflicts* of interest. Multiple representation (concurrent membership of opera company board and more than one other major arts organisation) was seen to introduce concentration of influence in the *artistic value* franchise, as well as creating a barrier to company differentiation and substantive artistic innovation. Several individuals were seen to enjoy concurrent membership of more than one opera company within the UK subsidized sector itself. This, we argued, contributed to the homogeneity of the sector which we had earlier observed. Overall, we argued that there was a need for greater transparency in the board nomination process, as well as for greater specificity and qualification of board member rôles. In its existing form, the board nomination process is non-transparent and promotes self-selecting representation, since boards only appoint those they can work with. Moreover, the process is fundamentally inequitous since board members are nominated, not elected, and therefore cannot be said, in any democratic sense, to represent the *artistic value* franchise. The existence of a non-transparent board nomination process and concentration of influence amongst non-elected, non-executive management, far from widening public representation, it was argued, acted to narrow the *artistic value* franchise and permit control by an effective *artocracy*.

The study revealed changes in the comparative financial efficiency of ON and SO, two subsidized sector companies which were similar in terms of size (turnover) and touring remit. It was concluded, in the absence of any other explanation, that the relative inefficiency exhibited by SO was the direct result of the company's ownership of installed capacity (the Theatre Royal). Furthermore, in the absence of demonstrable differences in *artistic value* between the two companies, it was argued that the investment made by SO, in installed capacity, represented an unnecessary burden on the taxpayer. Evidence suggested that there was a need to consider alternative operational models, and that private and alternative public forms of theatre ownership, in the context of opera provision, had not been properly considered. We concluded that the precise relationship between theatre ownership (by opera companies) and the creation of *artistic value* still remains to be demonstrated.

Finally, there was strong evidence to suggest that the financial stability exhibited by GP was due to strong management control, and that reputed ease of access to private source funding was not a sufficient explanator of the company's ability to operate in surplus. The smaller, more focussed board of GP, in comparison with those of the subsidized sector companies, was also thought to be a contributory factor to the robust financial performance of the company.

Overall, it is evident that in nearly twenty years opera as an artform in the UK has not evolved. Indeed, the fixed infrastructure which has been shown to prevail, precludes real innovation, since new genres, and new definitions or concepts of what opera is, cannot properly emerge without the flux of competition and cross-fertilisation. Since the infrastructure is the vehicle by which the artform is delivered, if there is no change in the vehicle, there can be no real change and, therefore, substantive artistic innovation in the artform.

9. CONCLUSIONS

9.1 Contribution of the study

Change is a feature of the political and economic environment in which opera currently exists; yet little formal work has been done to ensure adequate, informed debate across all those parties who have an interest in the *artistic value* and *financial value* issues posed by opera, and who, ultimately, determine the whole justificatory framework for the public funding of opera. That these parties are many and diverse is an added complication: musicologists, artists, arts administrators, cultural economists, public policy experts, politicians, the taxpaying public, and potentially all UK citizens (as rightful members of the *artistic value* franchise) need to be drawn into the debate. Moreover, whilst each party has tended to develop its own model of opera, as well as its own set of theories and schemas pertaining to value in opera, many of these models, theories and schemas conflict in terms of assumptions or aims, and most assume either a static environment or a static, non-evolving artform.

This, then, was the problem identified and articulated by the current study: that there is need for a better understanding of the relationship between *artistic value* and *financial value*, and for meaningful and objective inter-party communication if opera is to adapt to, and indeed, survive ongoing change in the environment.

The key contribution which this study makes is to show that *artistic value* and *financial value* are inseparable, and that this inseparability has implications of both a philosophical and practical nature for future subsidy policy design. Not least, the study reveals the extent to which structural or intrinsic factors play a rôle in the tendency of opera companies to fail in the short-term in response to acute environmental factors.

In addition: the development and refinement of a transaction model of opera (which explains the nature of the relationship between *artistic value* and *financial value* and which is testable against reality), the construction of an intensity taxonomy of opera, together with an innovative application of the methods and analytical tools of political economy also mark the contribution of this study to the terms of any future inter-party debate.

Moreover, by using a specially constructed data set, which permitted long- and short-run intercompany comparisons to be made on an equivalent basis, it is the first study of its kind to examine the behaviour of UK opera companies as economic actors. In this context, the study makes an important methodological contribution by recognising that the elaborate group structures which tend to be exhibited by full-time opera companies in the UK, are not incidental, but are integral to the creation of *artistic value* in the current era.

Observations about the behaviour of *financial value* parameters were used to show the trend towards greater *establishment* within the UK opera sector. From this it was recognised that complex corporate units form the prevailing mode of delivery for publicly subsidized opera in the UK. This, therefore, is the first study of its kind to acknowledge that investment in overhead (*establishment*) cannot be treated as antecedent to the production of opera (i.e. cannot be disregarded in analysis), but must be considered as an intrinsic part of the transformation of raw *financial* and *artistic value* inputs into live performances of opera. No study of opera sector expenditures would fulfil the aims of this study to the same extent, since total expenditure would first have to be defined (a difficult, if not impossible task, given the use of reserves and net contribution accounting within the opera sector), and secondly, be treated on an equivalent basis. Even a strict study in direct costs (assuming that direct costs could be reliably and consistently identified) whilst potentially guaranteeing comparability, would not reveal the true underlying cost of opera; and it is the true underlying cost of opera which this study *does* reveal.

9.2 The political economy of opera in the current era

Study of the UK subsidized sector as a whole revealed: an apparently ineluctable rise in costs, a culture of complacency, poor management control, immunity from the environment, and, in sum, a static infrastructure in the context of a changing environment.

A significant feature of the current era is the maintenance of a *powerhouse* opera company (ROH) whose rôle has neither been adequately defined, nor status actively challenged. Indeed, subsidy policy reflects a passive acceptance of the value of the *powerhouse* idea; a received wisdom that somehow the artform cannot flourish without the presence of an internationally recognized institution - a symbolic sector leader. It also indicates a passive acceptance that ROH must, therefore, represent all that is best in UK opera production, that it is an *artistic value* standard setter and *driver* of quality.

Yet how can the value of this premiss be tested in the context of an exclusive *artistic value* franchise, and in conditions which preclude the political impetus for change? Change in an essential service such as healthcare, where desired ends or outcomes are clearly defined and understood by all, can be effected from the top: change, although imposed by bureaucratic process, can be accepted and valued as change for the better where ends are clearly formulated. But change in an artform, in the context of a democratic market economy, requires a wholly different approach. Change of this nature cannot be imposed through political interference, since if it is to have meaning, ends and outcomes must be generated by the *artistic value* franchise.

However, equal exercise of the *artistic value* franchise, if it were possible, would be likely to generate diverse demands and competing agendas. Politically, therefore, it is easier for government to maintain the infrastructural status quo in the opera sector, and indeed, to tolerate an *artocratic* element in its governance, than to instigate restructuring: an action which would invite debate where none existed before. Indeed, infrastructural stability in the subsidized opera sector is an attractive option for government, precisely because it minimizes political risk.

Whilst effort has been made to improve and refine the existing infrastructure (by means of *Incentive Funding*, for instance) no change has been made to the root assumptions of subsidy policy. Subsidy is still delivered via grant-in-aid to an hierarchy of institutions; and there has been no attempt at wholesale reform.

A corollary feature, here, is the passive acceptance by policy makers that overseas touring is inherently worthwhile, and that despite attendant risks, the decision to tour can usefully be devolved to the level of the individual company; usefully, because it effectively reinforces the artistic autonomy of the individual opera company. In this context, the *arm's length* principle of subsidy policy provides companies with a mandate to embrace unqualified risk. But the value to the taxpayers and to the *artistic value* franchise of company autonomy in this respect is not clear. Indeed, the timing of some overseas tours means that a reduction in domestic supply, which is a consumer disbenefit, may result.

There are two counter arguments here: first, that producers benefit from exposure to new audiences in alternative, overseas cultural arenas; and second, that overseas touring is primarily concerned with the generation of externalities such as national prestige. If the first holds (producer benefits), then it must be demonstrated that these producer benefits are also passed on to UK consumers. If the second holds (generation of externalities), then it must be demonstrated that devolvement of overseas touring decisions can still be justified; that coincidence between producer interests and the public interest (i.e. the generation of externalities) can be expected. Certainly, there is need for more honest appraisal of the arguments for and against overseas touring. Moreover, the existence of the new Assemblies in Wales and Scotland brings the political dimension of overseas touring to the forefront. In a post-devolution environment, new *artistic value* agendas can be expected to emerge; and in this process, the forms of externality to be sought via overseas touring will themselves transmute:

the question of national prestige will become the question of whose national prestige?

Attempts at incentivisation, the rewarding of individual company gains in financial efficiency, have been seen to fail through lack of adequate checks and balances. The imposition of punitive controls (withdrawal of funding) when companies fail to meet requisite performance criteria, turns out to be impotent in the face of the moral obduracy exhibited by companies. The threat to make political capital out of complete failure of the enterprise is well understood by opera managements and provides the opera community with a moral lever, whose force increases with every increment of investment in overhead. What we see here is the principle of reward transmogrified into the principle of right. Whereas the idea of incentivisation implies just deserts (just reward for the provision of a service and the creation of *artistic value*) the threat of punitive political action in return (the threat by the company to make, in effect, a *coup de théâtre* of its complete and very public financial failure), a resort to gesture politics, implies that for the opera community, public subsidy is the subject of a claim of right; that it owes no duty to government to prove its worth. This amounts to coercive action by producers.

However, the difficulty of overcoming the disincentive effect of subsidy policy (i.e. the difficulty of rewarding gains in financial efficiency, of tying rewards to actual performance) seems to be a political rather than practical obstacle. There are, in other sectors of the economy, tried and tested alternatives to grant-in-aid as a form of government transfer. But whilst the institution of reform, in the context of opera might be both desirable and achievable, as a proposition, such radical change in the arts would complicate the domestic policy agenda to a degree unlikely to bring immediate benefits to government. The political landscape is cluttered with many more pressing issues such as healthcare and education, but as taxation revenues continue to be squeezed or subject to increasing accountability in their distribution, and the public sector continues to shrink, the conditions for radical reform in the arts will undoubtedly present themselves.

To be clear, the rôle of grant-in-aid, which is awarded to opera companies as institutions, not to producers with a specific artistic brief, has never been questioned, and no attempt has ever been made to reform this most fundamental element of the subsidy award process. But grant-in-aid as a policy instrument is one step removed from the funding of opera production itself: funding is currently predicated upon institutions, not activities. Whilst broad criteria may be set for the award of grant-in-aid, receipt of funds is not truly contingent upon performance. The opera company is at liberty to utilize funds more or less as it sees artistically fit.

Goal drift is an inevitable outcome of such a malleable funding instrument, and public funders have little opportunity for redress where there is abject failure (i.e. poor management control). In accountability terms, grant-in-aid creates the conditions for poor administrative propriety.

Moreover, there is no logical connection between the annual grant-in-aid award cycle and the planning cycle of producers (artistic labour may need to be contracted years ahead, necessitating long lead times for individual opera productions). This creates practical difficulties for producers. But most importantly, as the single main public funding vehicle in UK opera, grant-in-aid tends to create dependency. The moral imperative lies with producers, who bring to the negotiating table not a programme of activities, but the very *viability* of the company. Funders are left with little room to manoeuvre and funding cannot be permitted to advance and retreat according to objective performance criteria. In the interests of political accountability (the responsiveness or merits of subsidy policy decisions) it is not the existence of the institution per se, but the delivery of output which ought to be the focus of subsidy policy.

The distributive injustice which lies at the heart of current subsidy policy (subsidy capture by companies and audiences) whilst to some extent recognised, has been tolerated. Again, this is an outcome of reliance upon grant-in-aid as the main, and least politically risky, instrument of arts subsidy policy in the UK. Government appears to be caught between two equally risky policy options: between adoption of a *laissez-faire* approach, which, it is argued, without enhancement of the tax efficiency of sponsorship and private donation, would invite the death of the artform in its current form (too much autonomy), and between a centralised system of control which would subvert artistic freedom and contravene the *arm's length* principle of subsidy award (too little autonomy). Whilst the former would be perceived as the abrogation, by government, of responsibility for the nation's culture, the latter would be seen as state interference of an unacceptable kind; entirely antipathetic to the creation of *artistic value*, which is perceived to be predicated upon the freedom or perceived autonomy of artists.

It is a confused message, therefore, which is sent by the opera community to government: that although autonomy and artistic freedom are necessary conditions for the creation of *artistic value*, maximization of *artistic value* does not equate to complete autonomy (a message which appears to turn modernist aesthetics on its head).

In its moral ambit, therefore, subsidy policy contains a major contradiction which benefits neither producers nor consumers of opera: an egalitarian ideal which produces unequal opportunity i.e. unequal access to scarce resources by companies and audiences. Current subsidy policy appears to function, nevertheless, because to change it is to invite greater political risk.

Despite this, the study revealed several sources of inequity in the UK subsidized opera infrastructure which suggest that there is need for fundamental reform of policy. Disproportionate, factional control of the *artistic value* agenda, exercised by an effective *artocracy*, was shown to be a pervasive and problematic feature of the UK subsidized sector. The mechanisms permitting such control included: interested patronage and anonymous donation; appointment rather than election of board members to represent the public interest; bi-lateral and ambiguous representation with insufficient checks and balances against potential conflicts of interest; and multiple representation within the arts and within the opera sector itself. Overall, this was seen to allow concentration of influence, preservation of a status quo, and the creation of barriers to substantive artistic innovation.

Indeed, the concept of public service which underlies board level representation has served to promote social exclusion. The self-selecting nature of board representation, and the non-transparency of the board nomination process, has ensured that non-executive powers and privileges continue to be entrusted to an unqualified, unelected, non-executive élite. By its very nature, non-paid public service implies a *property* qualification - only those with independent means and sufficient time may hope to serve on the board of an opera company. Few professional musicians may be able to meet such criteria, and indeed very few are represented. Inevitably this propagates an exclusive status quo, and inhibits the introduction of radical financial and artistic departures, *unorthodox* ideas, and entry by talented individuals with new or alternative artistic agendas. In short, it has created the conditions for artistic inertia. There is, therefore, a failure on two counts: the failure of subsidy policy to encourage evolution of the artform, and failure of subsidy policy to promote full and free participation in the *artistic value* franchise; in fact, a failure to recognise that there should exist such a concept.

However, it is not simply a question of introducing an electoral system for board level representation: this would be unworkable due to potentially low participation rates. Rather, there is need to reduce the overall level of representation: to understand it as a qualitative not quantitative concept (viz the relatively small, focussed board of GP). At present, representation is diffuse and insufficiently professionalised; yet we would not expect to run a hospital, a nuclear power station, or an education authority without adequate professional representation at board level. Why, then, do we tolerate such poor board level representation of professional musicians and professional arts administrators within the opera sector? The problem is largely attributable to the policy of mixing private and public funding, and as such is very much a contemporary problem. Indeed, how *do* we represent the public interest?

Membership of the board of any major arts organisation carries significant cachet for the arts consultant. Indeed, it presents a free and closed platform for self-promotion. Moreover, in terms of the independence of the arts organisations concerned, there is obvious compromise. The presence of the same consultant on more than one arts organisation mitigates against competition by making it hard if not impossible for the consultant to avoid conflicts of interest (between clients). Indeed, the more entrenched such individuals become within any one arts sector, the greater their personal and professional influence and the less their advice is likely to be challenged. The value of the consultant becomes self-fulfilling. Again, this suggests a potential homogenising force in terms of *artistic value* and *financial value*. Moreover, in the UK subsidized opera sector, where companies, as we have found, are not strongly differentiated and tend, because of the effects of a centralised funding infrastructure, to face the same types of operational problems (e.g. need to manage a private sector fundraising campaign) the knowledge and experience of the consultant tends to become formulaic.

Weaknesses in administrative accountability, that is, in the extent and consistency of disclosure (concerning expenditure items, public and private source income, format changes, non-transparency regarding deferred income, and redesignation of reserves); sums to a poor track record and indicates complacency. Whilst there is evidence of adoption of new accounting standards (SORP2) and concern with issues of corporate governance by the end of the study period (mid-1990s), the value of revised reporting formats remains to be seen. It is difficult to say whether such improvements in reporting will solve the fundamental problem of inter-company comparability. There are remaining ambiguities (e.g. materiality of anonymous donations) which will need to be addressed by the Charities Commission and by professional bodies who deal with issues of accounting standards. In addition, many detailed issues pertaining to delivery of service have not been addressed. There is need, for instance, for an accepted definition of guest artist fees and associated costs (perquisites and travel).

Substantial capital investment has been a feature of many European opera economies in recent years. In the subsidized sector in the UK, this has permitted the creation and upgrading of transformational assets (theatres, including workshops, front of house facilities, stage equipment and other fixed assets) by means of special public funding. Whilst control of these new and refurbished transformational assets remains with individual companies (e.g. the London Coliseum with ENO, the new Covent Garden with ROH), there is no indication that the UK subsidized sector has any greater ability, today, to generate the revenue funds required to operate these assets, and to exact expected financial efficiency gains, than it has in the last twenty years. The skill and adequacy of opera managements with respect to property management has, it seems, never been questioned. For government, to some extent, capital investment in the UK opera infrastructure represents the postponement of a revenue funding problem of potentially major proportions.

Moreover, evidence suggests that the opera community has become adept at investing in *establishment* (overhead) as a method of building security: the greater the value of the transformational assets, the greater the political capital that can be made out of their *loss* to the nation. There is an insidious circularity of logic here: the public is now underwriting company investment in security via the National Lottery Distribution Fund and other special private giving, and in so doing has effectively cast itself as an agent of company intensification and *establishment*. Co-opted in this way, the public now faces a loss of choice. This occurs because increasing *establishment*, in turn, further limits the scope for substantive artistic innovation: the greater the investment in infrastructure, the greater its fixity. This would be well were it justifiable, yet there is no evidence to suggest that such investment will bring an increase in financial efficiency and every reason to expect new financial crises in the future.

Indeed, the implicit axiom of the opera community, that *artistic value* must never be compromised, and standards never willingly allowed to drop; that the maximization of *artistic value* output is synonymous with the maximization of *financial value* input, puts the sector on a road to intensification from which there is no return. Because the real cost of opera is continuing to increase in this way, the risk of failure likewise increases. Whilst a new venue may offer a wider range of non-performance income, increasingly sophisticated financial instruments are required in its management (e.g. retailer franchise agreements, leases, debentures). This is no substitute for flexibility, that is, the ability to respond to short-term discontinuities in the environment, such as for instance, the sudden reduction in international tourism which would result were a second Gulf War to occur.

There is need for scalability; that is, for better modelling and control of the relationship between *financial value* input and *artistic value* output. But intensification introduces a risk multiplier which makes scalability increasingly problematic. By extrapolation (using the aggregate growth rate from Table 6-1), results from this study suggest that by the year 2015, twenty years from the end of the study period, that the annual turnover of ROH will be £125 million in real terms, and that the *establishment gap* between ROH as *powerhouse* and SO, for instance, as *follower*, will have widened. Whereas in the mid 1990s ROH was found to be around six times the size of SO (in terms of real turnover), by 2015, it will be ten times the size of SO. In this scenario, it is difficult to see how the various companies of the UK subsidized sector may be meaningfully treated the same way i.e. as one sector. Indeed, if the *powerhouse* idea still pertains, if SO, in twenty years time, is still trying to track or *follow* ROH as *powerhouse* (in terms of spend per performance) there seems little option for the company but to cut its total annual number of productions and opt for a part-time existence. This would seem to be the future price of *artistic value* for the smaller companies.

Equally, by extrapolation of the *opera value inflation* index, which is currently running at 5% per annum (see Figure 6-6), in twenty years time, the real cost of opera will have doubled. This means that a doubling of financial intensity (specifically, a doubling of working capital and, therefore, required returns) will be required in order to maintain current *artistic value* standards. Whilst the *opera value inflation* index may be distorted by the presence of ROH, if ROH still commands *powerhouse* position in the future, these forecasts must be regarded as valid. In addition, even although it is possible that the new Covent Garden will substantially change the operational, and thus, cost basis of ROH (for some considerable time, until the new operation settles down) there is no way of knowing whether ROH costs will ultimately increase, decrease, or stay the same; so again, the forecast is valid.

This drive towards greater *establishment* amounts to the intensification of risk. Moreover, the management of a wide portfolio of financial instruments (which, as we have shown, is implied here) is not the understood object of arts subsidy. The more an opera company invests in installed capacity, in transformational assets, the more it will have to develop the range of expertise of its finance department and perhaps employ specialists not directly connected with the core business of producing opera. This is no substitute for strong management control, and in times of crisis, merely acts to compound the company's financial difficulties, not least by introducing tensions between those with potentially different objectives i.e. artists and management specialists.

The justificational basis for such extensive capital investment in the opera sector has not, it seems, been properly examined. Although work has been done to examine the contribution of opera to tourism, employment, urban regeneration, national prestige and other social benefits, little work has been done to determine the value of the transformational assets to the creation of *artistic value* in the first instance. The link between benefits (externalities) and associated cost (financial efficiency effects) has not been made explicit, nor has it been demonstrated precisely what *artistic value* benefits may be wrought. It is often assumed that opera companies cannot function without suitable stage, pit and storage facilities. But there are alternative ways of providing these, other than by direct ownership. Property management is now a professional industry sector in its own right, for instance, and given the poor financial track record of subsidized sector opera companies, there is every argument for the separation of assets and production in the opera infrastructure (an issue which will be discussed later).

In terms of the individual opera company, we have no means of identifying the causal factors of the cost rise in the sector i.e. of differentiating between active investment and passive cost creep. If the real rise in the cost of opera is the result of deliberate intensification (active investment) then what is the justification: is opera better today than in the 1970s? If, on the contrary, the real rise in the cost of opera is the result of poor management control (passive cost creep) then, in opportunity costs terms, how can such inefficiency be justified? The traditional explanation of rising costs in the arts (the Baumol and Bowen thesis or *productivity lag* model) whilst not conclusively disproved, was shown to be inapplicable as a defence, since it does not explain the substantial capital investments made by the subsidized sector companies, nor does it allow for poor management control. Indeed the thesis assumes that the arts organisation (here, the opera company) is a technical efficiency maximizer. Evidence suggests that this assumption urgently needs testing.

Whether active investment or passive cost creep (or both) is proved, either way, the real rise in the cost of opera does not provide a positive basis for future investment in the sector, since it implies that opera will continue to require an increasing real investment, *ad infinitum*.

There are two ways in which the opera community can justify this inexorable financial demand. First, it can claim that *artistic value* standards are constantly rising in line with *financial value* input, a strategy with curiously Hegelian overtones which implies that the only upper limit on the level of financial investment is absolute artistic perfection. Second, it can claim that financial efficiency simply cannot be improved. However, the demand for increasing accountability, and in particular, financial probity, will make this argument, which we have already shown to be weak, wholly untenable. In the absence of proper *artistic value* and *financial value* feedback (from the *artistic value* franchise and from the appropriate mechanisms of financial accountability) the opera community will continue to draw resources from the environment, in an unlimited fashion, as long as resources are available. That is to say, current subsidy policy has permitted an accelerator effect here because of relative immunity from demand constraints (franchisee tastes and preferences) and resource constraints (public funder conditions and controls).

But more and more, market mechanisms are being utilised in public policy to effect not just consumer choice between limited or given options, but consumer *control* over the range of options on offer.

Subsidy policy in the current era, driven by political and egalitarian aims, has produced choice between opera and other artforms, but not choice within the artform, opera, itself. Effectively, consumers have a choice between opera and ballet, between lyric theatre and dramatic theatre and so forth, but within opera itself, there is only one form, one paradigmatic vehicle: the *establishment* model opera company. Thus, whilst innovation by degree has been promoted within opera, substantive, qualitative artistic innovation has been effectively obstructed: opera still requires a stage and orchestra pit, and is still defined by an international repertory which, even when expanded via new commissions, must still utilise the given resources or infrastructure if it is to have any hope of being performed. By treating *artistic value* as an exogenous given, subsidy policy makers have constrained the evolutionary forces of the artform and denied it contact with the *artistic value* franchise. It is in the infrastructure in which the *museum* element of opera resides; stasis lies not in the style of its presentation, but in the vehicle of its delivery.

Moreover since the opera community, itself, believes that the creation of *artistic value* is facilitated by *establishment* (ideally the ownership of, or prioritized access to, a theatre, workshops, storage and other physical assets), it acts conservatively to preserve and maximize the organisation, the *establishment*, at the expense of other aspects of its artistic activity (e.g. education and outreach work, which are considered corollary rather than core activities). There is, therefore, a trade-off between *artistic value* and personal security. The opera community, given the current infrastructure, cannot afford to be radical in terms of changing the form of opera; it cannot exploit unconventional venues or unconventional forces without the risk of being perceived not to need its existing assets.

Within the opera community, then, maximization of *artistic value* takes precedence over *financial value*: money given by taxpayers for provision is diverted into *establishment*, suggesting that the organisation, the existence of the company is more important than any remit placed on the community itself. No clear standards exist, and definition of adequate *artistic value* standards is left to producers. How can this be justified, since there are other ways of providing opera? Indeed, no other area of public life is treated with such careful disinterest and intellectual courtesy. Medical ethics debates are conducted in public via the media (and via health boards, trusts, and local committees), and in the judiciary, the general public is represented by randomly selected jurors. Yet in matters of art, the public is not deemed fit to shape ends and outcomes, but must respect a paternalistic system which sets out to *educate* its taste. Indeed, education and outreach programmes abound in the arts. If, as a society, we are prepared to accept public opinion in issues concerning genetic modification of organisms, a highly complex issue, why do barriers still exist to the acceptance of public opinion in art? Why is there still, in effect, taxation without representation in opera?

Continually, these features resolve to the fact of government's unwillingness to consider itself capable of dealing directly with issues of *artistic value*. By disqualifying itself from *artistic value* judgement, it perpetuates an exclusive franchise. *Artistic value* judgement is left to experts (not to the general public) and therefore creates, by default, a partial interest within the *artistic value* franchise. In effect, the power and privilege of *artistic value* judgement is accorded to a special interest group. This leads to the curious anomaly of an *artocracy* generated by and within a purportedly egalitarian public policy. Yet there is equal claim to a need for greater professionalism in the management of the sector. The question is, how to draw upon professional expertise without distorting or narrowing the *artistic value* franchise, without destroying the potential for expression, which is, after all, the primary rationale of art?

As long as justifications based on the perceived separability of *artistic value* and *financial value* are maintained, autonomy of purpose, claim of right creates a political barrier to analysis - it is not perceived to be legitimate to equate *artistic value* with issues of financial efficiency. Cost-benefit analysis in the context of *artistic value* is regarded as unthinkable philistinism. Moreover, *artistic value* judgement is portrayed as a form of moral reasoning, and taste or preference as a form of moral committment. Taken a stage further with the application of an implicit *property* qualification i.e. knowledge as the expression of cognitive ability (qualifier) and opinion as cognitive deficiency (disqualifier) - a qualification promulgated, in effect, by Adorno and modernist aesthetic theory - *artistic value* is quickly established as an autonomous moral sphere.

Moreover, appeals to the self-evident nature of *artistic value* creation, as a worthy end in itself, subvert the need for objective performance criteria. The worth of the live performance of opera as an activity is deemed intrinsic by producers, in need of no active defence. But this is an argument in favour of autonomy (*artistic value* exceptionalism) and rests on the assumption of the separability of *artistic value* and *financial value* i.e. the creation of an autonomous moral sphere for *artistic value.* Interestingly, in communitarianist terms, this can be understood as the exercise of right without responsibility.

The opera community is also quick to invoke international comparison of public funding levels to make its case for greater subsidy. In so doing, it deflects attention from the real *financial value* issues which plague it, and which are internal or intrinsic issues of management control. Clearly, the continued separation of *artistic value* and *financial value* issues, in the minds of government policy makers and the opera community, is unsustainable; particularly so given the climate of increasing financial constraint which this study has identified.

Placed in the context of major change in the UK environment, and in the context of an open economy, a wide range of factors in the environment now influence opera as an artform: the committment to control of inflation - causing slowing growth in public expenditure as a percentage of GDP (notwithstanding major discontinuities such as wars); the shifting of funding responsibility to the private sector; the trend towards capital rather than revenue funding of opera by government; the trend towards openness and accountability in the provision of public services; general volatility in global finance and trade; fiscal constrains generated by the ongoing programme of

Economic Monetary Union in Europe; and the adoption of a communitarianist perspective in the current administration. These factors together create a dynamic in which the opportunity costs of funding opera, a non-essential service, become highlighted to a greater extent than ever before.

Overall, radical changes in domestic policy during the Thatcher years have changed the balance between the public and private sectors, and globalization of the world economy has constrained the tax policy choices of governments. Indeed, the increasing mobility of capital has already provoked tax cuts in a bid to compete for investment (government, like the opera sector in its private sector fundraising campaigns, must compete for *financial value* input). This has inevitable consequences, such as the continued squeeze on public finances as taxation revenues shrink or are redirected to meet more pressing goals. This also suggests the need for new forms of indirect taxation e.g. pollution tax; and in this climate, new forms of investment in opera may well be promoted (e.g. opera bonds).

The traditional justificatory framework for the public funding of opera: the *merit goods* argument, which stresses the theoretical externalities produced by the opera sector (wider social benefits as the end to which opera is the means), and which makes the case for subsidized access, looks increasingly feeble as the contradictory goals which it promotes become apparent. Delivery of an egalitarian ideal (access for all) by means which involve unequal opportunity (factional control of the *artistic value* agenda via interested patronage and an unelected, self-selecting, non-executive management) creates a departure from the democratic ethos (broadly, equal votes for all) which tests severely our conceptions of social justice.

Is it right to accord *artistic value* power and privileges to a small élite? Is it perhaps best for the public interest (a notoriously difficult concept to define) and for the creation and maximization of *artistic value*, that the *artistic value* agenda be controlled by an *artocracy*, by effectively authoritarian, and at the very least, paternalistic means? Even if this were so, if we thought that an egalitarian distribution failed to maximize aggregate utility, for instance, an issue we shall debate later, the fact of subsidy capture, of intrinsic inequity in the current subsidy system has to be acknowledged. Whilst it is rational to encourage private funding (given constraints on public funding in general, and of the arts in particular) the outcome does not appear to be morally justifiable. The moral perspective requires the equal consideration of interests; it requires full and free participation in the *artistic value* franchise. The critical question is: does such impartiality, albeit ideal, guarantee maximization of *artistic value*; that is, does justice pay in *artistic value* terms?

The commodification argument promulgated by Adorno, and by postmodernist theory provides an excuse to argue for the incompetency of the many - to argue for an exclusive *artistic value* franchise (implying a rôle for artistic fiat and coercion). But as we demonstrated, the commodification argument itself is deeply flawed and fails to explain reality.

However, it must be noted that equality of access is not equivalent to *artistic value* enfranchisement. Current subsidy policy aims to promote access for all to a given set of *artistic value* outputs, it does not enfranchise individuals to determine what goes on in the transformation process itself i.e. to influence the outputs or choices on offer. Participation in the *artistic value* franchise means not just response to signals (a market forces argument), it implies that *artistic value* be treated as an endogenous variable. The relationship between the transaction (model) and the franchise is key here.

Enfranchisement is about participation and influence over choices, not just consumption of given choices. Analogy may usefully be drawn here with the idea of the gentlemens' club or the book club. The boundary conditions on the system define the degree of enfranchisement, that is, the degree of inclusion or exclusion. Gentlemen who are admitted as members of the gentlemen's club are fully enfranchised, they may participate in rule making and in all the powers and privileges of membership; ladies, whilst they may, perhaps, be invited to dinner, are excluded from the franchise. This is a simple model of exclusion, but the closer analogy is served by the idea of the book club. Here, anyone may join and enjoy the principal privileges of membership; discounted books delivered by mail. However, the members of the club exercise no control over the choice of books on offer, and must choose from a given list each month or quarter. Failure to choose means forfeiture of benefits, the only option, if choices on offer do not appeal, is to forfeit membership. Opera season subscription members face much the same dilemma, as do all those outwith the *artocracy* which controls the *artistic value* agenda of the individual opera company.

Finally, the key issue now is not the legitimacy of funding an artform such as opera, it is the legitimacy of funding an artform which has demonstrated a poor track record of management control and financial efficiency, which perpetuates a form of social exclusion, which has consistently permitted subsidy capture by companies and audience groups, and which regards the rationale for its funding, the creation of *artistic value*, as entirely self-evident.

This, the legitimacy of funding an artform such as opera via public subsidy, is the primary question for the musicologist, whose main concern, if he or she is to take a view of the future, is to ensure flourishing of the artform. That this concern is bound to the question of human flourishing is the key reason for the musicologist's need for an adequate political economy of opera. Moreover, subsidy policy makers and cultural economists, by disqualifying themselves from making judgements about *artistic value*, effectively disqualify all others who do not have sufficient professional or artistic competence to make such judgements. That is to say, they disqualify the majority of the *artistic value* franchise and reinforce the power of an élite, an *artocracy*, to control the *artistic value* agenda. This amounts to the introduction of a property qualification (knowledge as property, where opinion is not equivalent to knowledge).

Most importantly, however, whilst there is no force for radical change in the immediate environment, failure of one or more subsidized opera companies in the future, an outcome suggested by the results of this study, is likely to precipitate fundamental reform of UK subsidy policy. It is this prospect we now need to consider.

9.3 Future scenarios and enabling mechanisms

Study of the political economy of opera, in the current era, suggests that subsidy policy will be subject either to incremental change, or wholesale reform, in the future. It is important, therefore, to consider two things: first, the political and philosophical backdrop to change or reform, and second, what enabling mechanisms are likely to underpin future subsidy policy? By discussing various enabling mechanisms for this reform, we show how more explicit linkage of *artistic value* and *financial value* issues should provide government with the legitimacy, the moral freedom, to disengage from the funding of opera.

The two scenarios and two enabling mechanisms presented below do not develop mutually exclusive ideas but focus on different aspects and problems of the political economy of opera, and ask how they might be solved.

Scenario one: democratic élitism, or preservation of the status quo

Incremental change or refinement of subsidy policy, rather than wholesale reform, may well prove the pattern for the future. It is important to consider, therefore, what will happen if the existing infrastructure is left as it is, and grant-in-aid remains the primary mechanism for opera subsidy in the UK.

Preservation of the status quo means acceptance of the rôle of power groups or factions as a *knowledgeable*, active force within the *artistic value* franchise. It means the acceptance of a democratic élitism which empowers an *artocracy* (an unelected, unqualified, non-executive management), giving it a moral mandate to exercise power in the name of artistic excellence *and* the public interest. Further, preservation of the status quo also means the continuation of the *powerhouse* hierarchy (led by ROH), an infrastructural model which is, in itself, an expression of belief in the value of rule or leadership by élite.

Any decision to maintain or affirm the status quo is likely to encounter the type of arguments we present in the paragraphs below. In addition, there is likely to be challenge from alternative policy or enabling mechanisms (discussed later). For these reasons we have fundamental, theoretical and practical concerns with the status quo. These are discussed, in turn, below.

Democratic élitism in the context of the arts relies upon a circularity for its justification. It relies upon the idea that the majority of individuals comprising the *artistic value* franchise either, are not interested in opera, or are passive consumers with poor *artistic value* taste and judgement. It argues for rule by élite on the grounds of apathy and incompetency of *artistic value* franchisees. But in this context, apathy is the inevitable outcome of the assumption of incompetency; *artistic value* apathy is the inevitable outcome of an exclusive franchise. As long as individuals may be deemed incompetent judges of *artistic value* (exclusion on grounds of inadequate artistic knowledge or aesthetic sensibility) franchisees can but remain demotivated; uninterested in an artform in which they possess little proprietorial interest. The majority of the *artistic value* franchise is therefore unlikely to exercise its franchise, not because it is culturally dull and indifferent, but because there seems little purpose, little likelihood of influence in doing so. Democratic élitsim thus relies upon the idea of voter ignorance and apathy to vindicate itself; it needs Adorno's passive consumers - his *temple slaves* are central to its construction.

Fundamentally, however, democratic élitism in the context of the arts means accepting that the egalitarian premise of democracy is fallacious; that individuals possess listening and appreciation talents to a vastly unequal degree, and therefore, that there can never be a natural, workable *artistic value* franchise which is *equally* open to all. But, again, there is a fatal circularity here: if tastes and preferences are shaped by experience, if individuals learn to prefer music with which they are already familiar (e.g. a comic opera by Mozart may be more familiar and therefore more accessible to some, than a comic opera by Britten), then tastes and preferences, and therefore, listening and appreciation talents, are a product of the market. This must be so, since music can have no hope of autonomous existence within a market economy. This means that unequal opportunity, for instance, unequal access to music education, unequal access to literature, and unequal access to all those prerequisites of art appreciation, must play a part in the formation of unequal listening and appreciation talents. In other words, there is no such thing as a *natural* inequality of *artistic value* judgement in the first instance.

There is, therefore, no moral, political or economic justification for the denial of equal franchise which democratic élitism in the arts entails; nor is there justification for the tolerance, indeed, cultivation of a *natural artocracy* to look after the interests of those with *lesser* listening talents. To Adorno, familiarity is the vehicle by which tastes are shaped, but familiarity is a product of access and exposure to art, and in a money economy, access and exposure to art are not necessarily equally open to all (a fact which, ironically, provides the rationale for current subsidy policy).

Inequality of *artistic value* judgement is not, then, a proposition about human nature, it is a proposition about democratic market society. Belief in inequality can be upheld only insofar as there exists a non-pluralistic view of *artistic value*, an intolerance of competing or alternative *artistic value* agendas, and a struggle for scarce resources. Indeed, in a truly pluralistic cultural environment, *inequality* of listening talents translates as *diversity* of taste: difference as threat becomes difference as a value in its own right. All that is required is a simple change of artistic and moral perspective. It needs to be recognized, therefore, that belief in inequality, in the context of *artistic value* judgement, is an entirely self-fulfilling concept.

But what is the relationship between political and artistic goals here? Might democratic élitism be justified if it permitted maximization of *artistic value*? Would this justify the social injustice which it inevitably entails? On these grounds, what is the likely outcome if an active élite continues to make *artistic value* choices for the passive masses, and the current infrastructure, with its emphasis on intensification and *establishment*, remains intact?

When a company owns a theatre it cannot alter the service form (i.e. the form in which opera is delivered). It cannot change the fact that opera is traditionally performed in a theatre with an orchestra in a pit: the company cannot take to the streets. This kind of radical, substantive artistic innovation is simply not possible. Moreover, even slight differentiation of the service offering is constrained by the existence of installed capacity. There may, for instance, exist a significant audience for *newer works and innovative interpretations* (viz SO ARA 1985) but the need to bring the audience (which may be very widely dispersed) to a single location, such as Glasgow, in the case of SO, in order to maintain utilisation of the home venue, constrains the ability of the company to reach that audience so severely that it becomes an impossible strategy to follow. It means that the theatre-owning company must always effect a compromise between repertoire planning (which must be generalised) and the professional strengths of its artistic team (which may be specialised). In the face of such compromise it is very difficult to build a unique artistic identity: the drive is consistently towards homogeneity. The only identity which can readily be cultivated is the identity of the theatre itself. In this we come full circle: it may indeed be the theatre which defines the opera company and not its repertoire; a situation which would continue given preservation of the status quo.

How far can artistic innovation go, then, given preservation of the current infrastructure? That is, how far can innovation go before a paradigm shift is required? Indeed, what is meant by artistic innovation, who is it aimed at, and why may we equate it with *artistic value*?

Constrained by the burden of *establishment*, the only variable which can be changed by the *establishment* model opera company, is production style (e.g. *Don Giovanni* can be updated once to a 1920s setting, and again, to a 1950s setting, for instance). But this type of innovation by degree is only innovation to those who have seen previous or alternative productions. That is to say, the kind of innovation by degree which the current infrastructure permits is aimed at existing, not new audiences. Over time, this means that the relative innovativeness of the individual opera company will only be perceived by an increasingly sophisticated and concentrated element of its total audience. Moreover, once audiences have seen an innovation of this sort, it ceases to be innovative - too many updated interpretations become passé. Also, other companies who choose to innovate in the same manner, run the risk of being perceived as derivative and weak, because identity and innovation are one and the same thing. Given preservation of the status quo, then, opera companies (at least in the subsidized sector) are only likely to become more and more homogenised or undifferentiated. In which case, all will be equally vulnerable to loss of funding should government choose to rationalize the sector.

In terms of public choice and flourishing of the artform, many artistic opportunities will simply not present themselves given continuation of the status quo. Consider, for instance, the idea of team built opera, a long-term concept built round a charismatic artistic director who possesses a strongly defined artistic aim and strong concept of the music forces required. Such a company might be built around a particular aspect of vocal style, for instance. But, given the current infrastructure and the *public service provision* ethos, it would be difficult to mount an authentic Verdi production, for instance, because singers cannot employ the nineteenth century bel canto techniques required without jeopardy to their existing careers. Singers willing and able to undertake this task would have to be employed on a full-time basis. Time would be required to cultivate the style (a slow but not necessarily expensive process if conducted within an alternative infrastructure). The emergence of this new identity would be a thing of interest in itself e.g. watching a Stanislavsky at work, or the emergence of a Ballet Russes.

In addition to these theoretical concerns, there are a number of practical difficulties associated with preservation of the status quo. A practical analysis is offered below.

Most importantly, failure of the opera infrastructure, assuming preservation of the status quo, may take two forms: slow death via cumulative inefficiency (e.g. mounting financial inefficiencies across the subsidized sector as a whole) or precipitous failure (e.g. a major and terminal financial crisis in a single company). The logical response of government to either of these forms of failure might be to rationalize the sector by closure or by merger of companies.

Universal financial intensification of the subsidized sector was revealed in the general findings section of this study. Failure of the infrastructure might occur, in the future, if this intensification is the result, even in part, of passive cost creep. Now, if the relationship between *artistic value* and *financial value* is linear, we would expect greater *artistic value* the more that is spent per performance. However, it might also be true that the same degree of *artistic value* is, today, simply being produced more inefficiently; that, contrary to the assumptions of the Baumol and Bowen thesis, opera companies are not technical efficiency maximizers, but technical inefficiency (redundancy) exploiters.

Indeed, given the degree of labour intensification also revealed by this study, it is possible that artistic teams have, today, increasing time to develop and consider the production and interpretation of the work in hand. It is possible that companies within the subsidized sector are now unnecessarily labour intense. Every individual employed multiplies the number of work hours to produce one performance; and every work hour invested adds complexity to the task. Given this added time and complexity, it is quite possible that amongst staff and guest artists engaged in production, that this extra time is absorbed by swings between attempts to reach consensus and attempts to dictate direction. In short, it is possible that there now exists redundancy. Indeed, results suggest that scope for redesign of costumes or parts of sets, mid-way through rehearsals, is offered because management exerts insufficient control over budgeting. Directors and designers may now be able to regard the opera house as a place of work, and the production as a malleable *objet d'art* to be sculpted on the job. It is possible that there is too much room for spontaneity in the transformation process, and that not enough value is being placed on the rôle of constraint (i.e. that redundancy is exploited rather than eliminated).

Certainly, artistic goals appear to be left too diffuse and too open to manipulation (indulgence versus discipline in the transformation process), and opera companies may be bearing the cost of inefficiencies in the supply chain. A busy singer, for instance, who may finish learning the score whilst on the job presents a cost to the company (through longer rehearsals, extra rehearsals, and special coaching). Whilst this was not a study of the factors of production of opera, there is, nevertheless, an interesting hypothesis here: oversupply of singers may be a cause of inefficiency in the supply chain and an added cost to the opera company. In conditions of oversupply, insecurity of singers increases, young professionals take on every opportunity offered for fear of substitutability (losing to new entrants); consequently singers' preparation time diminishes, and opera companies bear the cost of lost preparation time. There are two solutions here: government can either cut or control the supply of singers (by withdrawing the funding for a conservatoire or opera centre), or change the opera infrastructure in order to absorb more singers and in new ways. Supply chain inefficiencies, such as this, might become an issue (and a sensitive moral issue since lives and livelihoods are at stake), given preservation of the status quo.

Because of apparent inflationary pressures on the cost of factors of production (the study identified *opera value inflation*), preservation of the status quo also entails real rises in the level of public funding awarded to the subsidized sector. Nevertheless, the existence of *opera value inflation* does not provide an argument for raising subsidy levels in the UK, or indeed in other countries, as might be argued. On the contrary, from the point of view of the taxpayer, it argues in favour of changing the UK opera infrastructure in such a way as to insulate it against such imported *opera value inflation.* One way in which this might be achieved is by encouraging greater differentiation amongst opera companies and a stronger localisation of the artistic output (e.g. using native or UK-based artists). Although this cannot be done under the current infrastructure, it may provoke debate, particularly as the advent of the Euro makes international pricing more transparent.

Now it might be argued that because the public funds directed towards opera take the form of producer subsidies (awarded to individual opera companies for the purposes of providing an artistic service i.e. producing opera) that issues of subsidy capture by audiences (as opposed to organisations), as we found in the case of ROH, is null and void. But such are the ambiguities of policy in this area (i.e. is the aim of subsidy to maximize *artistic value* by supporting innovation or is it to increase public access to the artform as a given, or both?) that is its quite legitimate to couch our analysis of the allocative efficiency of subsidy in terms of consumption as well as production. This is perhaps one of the key questions of a political economy of opera: how to define efficiency and equity?

Now it may be precisely because there is a lack of clear objectives in subsidy policy that a package of implied goals exist, some of which appear to be predicated on issues of equity and others on issues of efficiency. *To open the arts to all*, a mission statement objective of the ACGB (viz Peacock 1994) is clearly predicated on equity: the removal of barriers to access, the prevention of social exclusion. *To promote excellence* and *encourage innovation* (also ACGB objectives) suggest an altogether different end: value, or more specifically, *artistic value*. This suggests that excellence (high *artistic value*) is an end towards which artistic innovation is the means. Such means-end rationality, albeit implied, opens the way for measures of efficiency; an efficiency goal here must be, for instance, simple maximization of innovation: the more artistic innovation, the greater *artistic value*. But this does not sit comfortably with the grander goal of access. Given that tastes and preferences are not fixed, innovation may itself introduce barriers to access. Results from individual companies showed that SO had experienced just such difficulties in *experimentation* with its repertoire. Equally, choosing to prioritise the distribution of subsidy on the basis of equity (open and fair access) may mean reducing the cost of opera so as to increase provision (e.g. more touring) and thereby place a constraint on *excellence* since the ability of individual companies to compete for factor inputs (e.g. star conductors) may be reduced.

It is likely that the strains of non-congruent policy goals will magnify as real investment continues to increase in the future. This may provoke pressure for change from within the opera community itself.

Public policy needs to define the beneficiary of subsidy more precisely: is it the producer or the consumer, or both? In recent years, much the same problem has dogged UK agriculture: do consumers and farmers benefit equally from the operation of government intervention in food production, or does one benefit at a cost to the other? This is now the subject of government review.

In practice, opera subsidy is awarded as a producer subsidy; yet in principle, it is awarded as a consumer subsidy. This situation benefits neither producers nor consumers, since neither producer nor consumer can be adequately rewarded or incentivised without apparent cost to the other.

These, then, are the practical difficulties associated with preservation of the status quo.

Scenario two: communitarianism, or third way opera

There has been an increasing emphasis on the rôle of the voluntary or third sector under the current Blair administration in the UK. Given time, this emphasis, an outcome of communitarianist thinking, may be expected to make a radical impact on the opera infrastructure and on subsidy policy goals.

The communitarianist perspective stresses devolvement of power to local communities within the state (disengagement of the state), the building of communities which are responsive to the needs of members (political accountability), and greater co-operation between private and public sectors (social entrepreneurship and public-private partnerships) as a way of curbing the rôle of private money and special interests within the state.

Although communitarianism entails deference to universalisable moral principles (it does not promulgate crude majoritarianism, and does not imply complete community autonomy) it is not clear what universal policy principles might need to be engaged in the case of opera. Complete community autonomy might result in the loss of the opera infrastructure, or in complete change of use. Constraint of some form would need to be placed on community activity, and policy criteria of an artistic, political or economic nature would need to be established, possibly by legislative means.

In contradistinction to Adorno's idea of *temple slaves*, communitarianist principles permit the passive music consumers of modernist aesthetic theory to form themselves into legitimate, active communities. If Adornian theory posits the existence of priesthood and slaves in the temple of art, then communitarianism accords equal status and political power to both. In the communitarianist scheme of things, all communities working within given policy criteria, no matter how these communities are composed, are enfranchised. This posits the existence of many competing *artistic value* agendas across many disparate kinds of community, some of which may have geographically dispersed memberships e.g. an Early opera club.

An emphasis on communitarianist principles in public life may, in this way, lead to fragmentation of the opera infrastructure and to greater differentiation amongst opera producers. Devolvement of power to responsive communities should not only legitimise the pursuit of new and shared *artistic value* aspirations, but should prevent the imposition of *artistic value* agendas by factions within the franchise. Indeed, agendas will be constantly open to negotiation.

There may be, nevertheless, considerable scope for inter-community rivalry of a cultural sort - the reinvigoration of local, regional and national identities through cultural competition. Communitarianist opera (i.e. opera produced by *communities* within the state) may become a vehicle of such societal change, and in this way, may impact the political and economic environment of which it is a part. Indeed, this is more likely to bring meaning to the term *national* company, and may give government the rationale for radical rationalisation of the opera infrastructure in England, closing and merging companies in order to form a single and much strengthened English National Opera company to place alongside WNO and SO.

Communitarianist arts policy may also foster greater participation in opera (greater exercise of the *artistic value* franchise) as well as a sense of ownership of the artform by *artistic value* franchisees. Communitarianism in strong form, for instance, would involve micro-funding: the funding of a wide range of projects with the aim of extending participation in opera, rather than simple maximization of access to an existing offering.

But the *artistic value* agenda of the individual company should no longer be controllable by an *artocracy*. Factions will emerge, but overall this may promote democratisation of the process of *artistic value* creation itself: each community defining and articulating what is expected of its arts organisation. Furthermore, communities may compete for funds.

In the current era, voluntary effort within the opera company has generally been confined to ancillary tasks. But as the third sector comes, in the future, to be more highly valued for its contribution to the economy (an inevitable outcome given continued disengagement of the state), this will change. In the future, volunteers will probably become an integral part of the decision-making process, and therefore, the transformation process, of the opera company.

Empowered in this way, volunteers can be expected to become key influencers of the *artistic value* agenda (the opera company or group serving the needs of the volunteers, and not the other way round). Given this new proprietorial interest, the community becomes, in effect, an *artistic value* polity, and may secede from the current infrastructure (by changing the operational basis and artistic aims of the company) in order to promote, more efficiently, the artistic interests of the community.

Alignment with new social movements, whose significance lies in translating the public's changing values and issue interests into a political force, into the means by which to challenge established interests, is likely to occur. This is probable precisely because new social movements, such as the many Green parties in Europe, are characterised by devolved, participatory decision structures (a feature compatible with communitarianist principles), and by expansion of the accepted modes of political action to include protests and direct action (a feature which suggests itself as a natural corollary to purposeful artistic expression). In this we might expect to see a revivification of *agitprop* opera, a continuation of the work of Brecht and Weill, perhaps around a contemporary issue e.g. environmental opera.

Indeed, we might expect to see something of this scenario even if the current opera infrastructure remains in place. We saw that ENO, for instance, was charged with provision of opera *of cultural value to the community* (ibid ENO ARA 1990): this stated aim would be open to redefinition and radical reinterpretation given the empowerment of volunteers within the organisation. ROH, however, might remain relatively unchanged by drawing upon the values of its metropolitan hinterland. It might find a new rôle for itself in the provision of *capital city opera*, and in preservation of the *old* values and traditions and standard *classical* repertoire of opera. However, ROH would need to cultivate its private and third sector support to an even greater degree than it currently does, in order to achieve this: virtual privatisation of the organisation would have to occur and ticket prices might well rise to reflect the new found independence of the company (its relative artistic and social autonomy). Inevitably, this would result in fresh distortion of the *artistic value* franchise by creating new persistent minorities in other parts of the UK. This would occur as those groups formerly served well by the current grant-in-aid system (e.g. Wagner lovers) found themselves unable to form communities of sufficient critical mass to win funding for local activities. Nevertheless, these persistent minorities could, given time, organize themselves on a national or even intranational basis to form, for instance, a travelling company, perhaps even contracted from Bayreuth itself.

Significantly, communities might still fulfil the criterion of responsiveness (to members) whilst still exercising some form of property qualification over membership (see again section 1.1). Exclusivity would be an admissible feature (e.g. minimum donations to an opera club, or knowledge as a prerequisite of membership to an opera *academy*). Nevertheless, distributive justice might be maintained via competition between communities for public funds. Again, there are questions here for government in the matter of defining appropriate universal principles, of establishing the appropriate moral and political *mise-en-scène* for communitarianist arts policy.

Whilst communitarianism apparently embraces the rôle of public-private partnerships, it is not clear in what way this is consistent with the communitarianist stress on the controlling of private money within the state. Indeed, the conflict of interests which results from private representation (*private patrons with directorial interest*) is perhaps an issue for the Charities Commission. Whilst private funders of the arts would not be discouraged, the conflict between individual liberty and the public interest would still need to be addressed. A code of practice, for instance, recommending the separation of patron and directorial interest might be one option. Those individuals who might still wish to enjoy the privilege of special influence at board level, could, in these circumstances, best be advised to set up an entirely private sector arts organisation of their own.

Perhaps the most damaging practical difficulty with the communitarianist perspective in the context of subsidy policy, is the question of community empowerment. Unless community agendas are genuinely devolved (i.e. constructed by members themselves) and not imposed or shaped by community intermediaries (e.g. Local Authority education or cultural services departments) who think they know what is *best* for communities, change will be cosmetic rather than coherent. Compromise on the issue of community empowerment will render communitarianist arts policy impotent: it will not enable substantive artistic innovation and it will not enable greater participation in the *artistic value* franchise.

Enabling mechanisms: private service provision

Opera in the UK is currently supported via grant-in-aid and delivered by government as a form of public service. There are, however, alternative ways in which to deliver public services. *Private service provision* i.e. the provision of opera by various forms of contract instrument between government and private sector, meets the political and economic objectives of public service (i.e. the generation of externalities and provision of access) just as well. In addition, *private service provision* enhances accountability and ensures the inclusiveness of the *artistic value* franchise. The two main features or requirements of *private service provision* as an enabling mechanism are:

1) *Direct transaction between government and opera producer.* The transaction between government and opera producer is effected without the need of intermediary agency. The trade of values which takes place in the transaction between government and opera producer therefore becomes explicit and transparent. As a result, success and failure, in both *artistic value* and *financial value* terms, are better defined.

2) *Separation of physical establishment and production.* The separation of physical establishment and production yields flexibility and stimulates competition. By disassociating producers from venues it permits the multiple use of venues (thus increasing public choice). Separation may be achieved by fiat or by passive means: government may force the release of assets on an immediate or incremental basis, or it may simply await the collapse of a major subsidized sector company.

Franchising and direct contracting represent two extremes of *private service provision.* As an enabling mechanism, *private service provision* gives government the freedom to manage the *artistic value* agenda across an infinite range from complete delegation of competency (franchise) to direct management (contract). These mechanisms (as two extreme forms of *private service provision*) are discussed below.

Franchise model. In the *franchise* model, venue management, rather than opera provision, is predicated as a public service. Government first sets up a venue management service: a range of mechanisms are available here e.g. agency, or private company with assets in trust. The particular choice of instrument here allows government to place different restrictions on use of the venue infrastructure. It may, for instance, stipulate a balance of usage between commercial and artistic aims by setting out criteria in a parliamentary charter, or by issuing a tendered contract. It is important for government to establish the concept of usage (what activities are to occur), otherwise profit motives will ensure that the venue infrastructure is lost to more obviously viable and popular activities such as West End musicals.

In the *franchise* model, then, opera companies are divested of their theatres, or the financial support for these (which amounts to the same). A range of opera production companies are then funded as franchise holders (i.e. delegated responsibility for management of the *artistic value* agenda) and given access to the infrastructure. There exists a range of ways in which this may be effected, but all options share one common feature: in each case, the company must provide a proposal, detailing its committment and what it will achieve.

Franchising also has the virtue of breaking the annual funding cycle by awarding contracts for longer periods e.g three to seven years, for instance. Close analogy here may be drawn with Independent Television franchises, award of which is predicated on the fitness of proposers as well as proposals. The crux is: the opera production company must provide explicit definition of what it will achieve, and in turn, is given the appropriate planning horizon to achieve it in the knowledge that it will be reviewed or audited towards the end of the franchise period. It also provides an entry opportunity for competitive managements, who think they may be better able to fulfil the franchise conditions. Ultimately, the aim of government here is to have more proposals than franchises.

Franchising is compatible with the general trend towards disengagement of the state. All government has to do is decide amongst the proposals received (an unmanaged *artistic value* agenda); it does not have to *provide* the *artistic value* agenda. Contract terms and conditions may avoid direct management of the *artistic value* agenda, but will include the criteria for good conduct as well as the social and public service objectives to be met. Franchising thus marries financial efficiency criteria with the generation of externalities.

The *franchise* model works by maintaining a spread of franchises in terms of scale, value, and bias. Franchises might include, for instance: an international standard franchise; national franchises and regional franchises; education franchises; touring franchises, and so forth. The bias and scale of contracts provides individual identity for opera producers: each franchise category is different. The rôle of government is to search for distinctiveness amongst proposers. Duplication of franchises is also possible, and may be useful to reflect geographical separation e.g. Both Glasgow *and* Manchester might win an education franchise on the basis of resource strength in this area.

In the *franchise* model, there are only two players; no Arts Council. Government receives proposals directly from producers, and proposals, as well as government (funder) responses, are published. This permits transparency and opens the *artistic value* agenda to the influence of the *artistic value* franchise: franchisees may lobby their MPs, or, indeed, decide to set up their own opera production companies on the basis of the information thus available to them.

Contract model. In the *contract* model, government has the option to take control of the *artistic value* agenda. It may decide, for instance, to undertake the maximization of *artistic value* (effectively, the reverse of current subsidy policy aims). This can be done should the opera community be judged, or be found incompetent in terms of ability to meet agreed committments. Should this occur, government will move to institute a more detailed level of funding, using more fragmented, shorter and more specific funding instruments.

Whereas delegation of competence is a feature of the *franchise* model (leaving the opera producer, the franchisee, free to decide how to create *artistic value*), the move to more specific programmes, in effect, removes the assumption of competence. Also, because programmes are shorter and more specific, there will be many more contending proposers, but funding will now be limited to a single concept or programme leaving proposers fewer degrees of freedom.

The *contract* model might require the institution of an artistic advisory board as overseer. The advisory board would set policy goals, and advisors, whilst drawn from the artistic community, would be obliged to disqualify themselves from any potential conflict of interest e.g. involvement in sponsorship or patronage of proposing companies. A parliamentary charter might be used to set out the remit of the advisory board and thereby set, also, the expected range of representation and qualifications of its members (who, in addition would be appointed directly by government, and probably on a rotational basis).

Specifically, the advisory board would be required to demarcate fundable concepts (areas for activity), set guidelines, as well as provide illustrative examples of what it wished to see achieved. This done, the advisory board would disengage from the funding award process until reviewing policy goals towards the end of the life of individual contracts.

Moreover, whilst the advisory board would be responsible for setting general policy (i.e. setting the general funding criteria) it would not be responsible for the award of contracts). Audit and award of contracts might be made the responsibility of specially invited *rapporteurs*. The *rapporteur* system, much used in the context of European Union programmes, provides an established model here. Separation of goal setting and audit and awarding processes inhibits the propagation of *artocratic* interests. For instance, *rapporteurs* have contractual responsibility to reveal problems contained in proposals. If the *rapporteur* makes an objection, then the objection must be personally defended; the proposer becoming prosecutor. This opens debate and avoids partisanship. Again, there are rules for the selection and invitation of rapporteurs (so as to avoid potential conflicts of interest), and an Audit Commission check would also be possible. The most important safeguard, however, is the fact that the artistic advisory board must report to Parliament to show that it has met the political objectives set out in its charter.

In this way, the *artistic value* franchise has the opportunity to direct the advisory board's agenda by lobbying the appropriate arts or culture minister. The board may, in addition, be required to engage in a process of public and professional consultation.

In this model, the public sector becomes an opera enabler, deciding upon the service it requires, with capital and management skills provided by the private sector. Nevertheless, the service retains its public characteristics. Moreover, incentives and penalties can be written into contracts.

Here, the *artistic value* agenda is specified in detail (the deliverable is detailed). Ethical principles govern this process to limit the interest of the private partner within stated bounds. The opera community experiences major constraint on artistic freedom but gains through the ability to compete on a level playing field (note, contracting must be done in conjunction with separation of transformational assets and opera producers).

The *contract* model, because it has the potential to split or fragment the *artistic value* agenda into many component areas, would also be expected to stimulate the emergence of a new type of infrastructure: an infrastructure of many opera troupes of varying size with distinct repertoires and performance styles (a feature which might lower the political cost to government of the failure of any one of them).

Ultimately, change in the infrastructure permits challenge of the idea that opera is defined by the existence of an international or central repertory (a nineteenth century concept), by encouraging localisation and regional differentiation. In this respect opportunities for the generation of new externalities are presented. For instance, opera as a vehicle for the expression of regional identity might not only attract overseas tourists, but stimulate domestic tourism also. Externalities might be defined by and within communities, allowing repatriation of externalities to specific communities. The concept of externalities is currently articulated in very abstract sense e.g. national prestige. However, through community devolvement these abstract externalities might become concrete realities e.g. regeneration of rural communities through renewed interest in church or village halls as meeting places. The possibility of local recruitment of chorus singers also echoes the artisan labour model of eighteenth century Italian opera. This would provide additional income for local communities (an externality in itself).

Whilst there is stasis in the opera infrastructure now, the possibility of closer linkage of output and planning cycle offered by the *private service provision* mechanism should allow funding to advance and retreat. In addition, there is the advantage that delivery of output, not the *establishment* or institution should become the focus of subsidy policy. Examples of *private service provision* (which is project-based) include: European programmes such as Kaleidoscope, academic projects, commercial product development and marketing. Significantly, in each case funding is limited to specific objectives. There is also scope for use of an *additionality* clause in contracts i.e. proposers must state in what way funding will enable activities, by stating what activities will occur without funding. *Private service provision* requires a going concern which is truly, and not *apparently*, viable.

The *private service provision* mechanism, in all its variant forms, permits multiple funding of producers and thereby removes the moral leverage which producers are currently able to exert on government. Under *private service provision*, producers cannot argue over viability but must demonstrate additionality i.e. what precisely the grant may enable in addition to existing activities. This implies a stable organisation and finite programmes. Moreover, although funding may still be on a rolling basis, it will be specific and measurable against outcomes stated in the initial proposal document. *Private service provision* is, therefore, a useful vehicle for innovation within the artform.

Most importantly, the publication of producer proposals in summary form not only creates transparency but offers the opportunity for consultation. Publication of proposals ensures that producers explain their objectives to a non-professional audience i.e. to the *artistic value* franchise. It also makes the transaction between government and opera producers transparent and testable.

Enabling mechanisms: the national trust fund model

There is a strong case for the separation of powers within the UK subsidized opera infrastructure. That is, for separation between ownership and productive use of transformational assets; the separation of theatre ownership and opera production itself. The exact value to the opera company of direct ownership of transformational assets in the transformation process has never been established in cost-benefit terms. There is, therefore, an argument for separation of goals (maximization of *artistic value*) from constraints (maintenance of *financial value* efficiency and the viability of transformational assets). The idea of a national trust fund for opera provides one vehicle by which this might be achieved.

The concept has several virtues. Appointment of trustees on a rotational basis would prevent the establishment of a status quo; another *artocracy*. Moreover, appointees would be bound by strict rules of trusteeship. For instance, trustees cannot disburse the principal capital of the fund for which they are responsible; to do so would be to face immediate legal and personal penalty.

The idea of a national trust fund for opera might also be expected to focus the public mind on opportunity cost issues, as well as on the competency or qualification of trustees. Moreover, the trust, as a funding vehicle, also permits variation and innovation. Goals may be set so that companies must compete for funds according to criteria set by the trust itself. A range of funding categories might be developed to cover formal innovation, tourism projects, education and outreach work and so forth.

This would prevent tokenism (e.g. token outreach activity which is a necessary but not sufficient criterion of funding in present subsidy award). It would also allow start-up projects not only to compete directly with established opera companies such as ROH, but to compete on an equal basis. This would encourage specialisation and differentiation, allowing companies and groups to exploit specific artistic strengths, rather than be forced, as under the present system, to try to cater for a wide and potentially disparate range of tastes and preferences (this, we saw, was a problem for SO, in particular).

Ultimately, the existence of a national trust fund for opera would change the market for factors of production in a radical way. It could be expected to break down the homogeneity of the current infrastructure: the greater the range of categories supported by the fund, the wider the variation in forms of delivery. To some extent, this would, in turn, erode the scarcity value of perceived élites (guest artists) and therefore act to counter *opera value inflation.* Denomination of the fund in Euros would also enhance transparency of factor pricing in international sourcing.

Finally, the setting up of a national trust fund for opera provides a politically interesting mechanism because it involves the complete disengagement of government from the process of managing *artistic value* - by making it the remit of the Charities Commission - a truly third sector interest.

The outcomes of change and enablement

In time, as a result of infrastructural change, new forms and genres of opera could emerge such as childrens' opera, minority language and dialect opera as forms of regional *volksopern*, outdoor and street opera, and municipal opera, all of which are likely to challenge the current perception that opera is a *classical* music form and must be performed in a theatre with an orchestra in a pit. Cross-fertilisation between opera genres and, indeed, other artforms, might occur and would reflect community priorities and local resources.

Potentially, change in the infrastructure may afford the *artistic value* franchise a chance to draw on older, historical operational models e.g. troupes specialising in stage machinery and special effects (either with authentic or cutting-edge technology); troupes drawing on the *commedia dell'arte* tradition (with old and new stock characters, topical *lazzi* or visual gags with stronger differentiation between singers; some singers with very physical, acrobatic rôles and others with static rôles in which the emphasis on vocal delivery and bel canto becomes a defining feature); peripatetic troupes in the tradition of the seventeenth century French *ballet de cour* (a key feature of which was the ability to adapt to a wide range of venues both indoors and out); special import, project-based troupes e.g. a *zarzuela* troupe imported and contracted for a tour, rather than an isolated, festival visit; troupes specialising in new and existing semi-operas which might be defined under a category for *indigenous forms* (from Purcell to new commissions, thus reviving an old genre). Moreover, in this latter form, there is scope for community participation since in semi-opera, major characters speak and minor characters sing or dance (allowing local amateurs and young professionals a chance to participate). We might also expect to see local provision of stage machinery and costumes, and the organisation of special commissions for annual community events. Indeed, semi-opera has the potential to extend or open up the *artistic value* franchise in a dramatic way by offering franchisees the opportunity to become directly involved on stage (i.e. directly involved in the transformation process and *artistic value* agenda itself).

These formal innovations, representing the kind of substantive artistic innovation which current subsidy policy obstructs, would have to be accepted as forms or genres in their own right; not merely tolerated by an *artocracy* which considered these *deviant* or bastardised forms excusable only as a means by which franchisees might be encouraged towards appreciation of the *real thing* i.e. as possessing instrumental value only.

This type of model might also stimulate the re-emergence of impresarios as well as aristocratic and even artocratic patrons: *opreneurs* (working within the caveat of contracts, the professional representation of artists, and agreements concerning remuneration rates and working conditions in order to limit the possibility of exploitation). There is also, here, the possibility of new career opportunities for young artists. Apprenticeships might be developed to give individuals multiple skills e.g. singers doubling as lighting crew in smaller troupes.

Earlier, we found that the goal of distributive efficiency must necessarily supervene the goal of *artistic value* maximization in subsidy award. Indeed, it could not be otherwise, given current subsidy policy. A useful thought experiment here is to reverse the result. What would the outcome be if government set out to maximize the *artistic value* of opera (in an alternative infrastructure)? Firstly, the *artistic value* agenda (policy goals) would become identified with power factions within the *artistic value* franchise; an immediate narrowing of the franchise would occur, individual artforms would compete openly, and choice between artforms (as a justification for subsidy) would give way to new justifications for subsidy.

In this scenario, the need to respond to the *artistic value* franchise would result in distortion: inequality of opportunity and access to financial resources would be required in order to promote equality of preferences. Each might be rewarded according to taste and preference, but there would not be equality of opportunity i.e. franchisees would not all see the same productions, genres, and companies; and not everyone would have the chance to see a production of Wagner's *Ring*.

Overall, our point is this: without change in the infrastructure substantive artistic innovation cannot take place. Innovation is equated with *artistic value*, but as long as the current opera infrastructure prevails, the radical young composer cannot introduce fresh artistic departures. Put bluntly, he or she cannot score for twenty-one saxophones when orchestral salaries have to be paid, and when individual opera companies must look to the proper utilization of the transformational assets in which they have invested. Indeed, the young opera composer is hemmed in by *financial value* issues which have a fixity about them which is entirely unnecessary.

9.4 Summary

In part this study has been made necessary by the lack of an adequate political economy of opera and the lack of adequate philosophical constructs to take opera successfully into the twenty-first century. In the theory chapters of the study we saw the need for a fresh theoretical approach which would allow the various parties with an interest in opera to find a common forum. Our findings, particularly vis a vis the operation of the *powerhouse* model, confirm the need for such theory and underline it as a matter of some urgency.

The persistence of a *powerhouse* hierarchy (an overhang from Keynesian demand management policies of the post-WWII period) and a *public service provision* ethos, confirms treatment of *artistic value*, by policy makers, as an exogenous given, and, by the opera community (in its complacency and lack of concern with accountability) as self-evident. But *artistic value*, as we demonstrated, does not pre-exist its consumption. In the live performance of opera (which is delivery of a service) value is created by and within live performance: the production and consumption of *artistic value* is a simultaneity; the result of an aggregate transaction between audience and opera company. To treat *artistic value* as an exogenous given is to miss the mutability, the transient, perishable, and dynamic nature of *artistic value*; it is to fail to take account of the influence of partial interests in the *artistic value* agenda.

Specifically this suggests that the provision of opera (as an artform with existing *artistic value*, which is determined by producers and which is self-evident) is more important to government than the creation and maximization of *artistic value*. This was a key finding: that the goal of distributive efficiency must necessarily supervene the goal of *artistic value* maximization in current subsidy policy.

We have shown that modernist aesthetic theory, and that postmodernist thought (which takes its cue from the modernism of Adorno) is inapplicable to the current environment and situation of opera. The effective denial of the inseparability of *financial value* and *artistic value* which underlies the writings of Adorno (and those postmodernists who develop his ideas) provides a totally inadequate basis for analysis and for the successful evolution of opera as an artform. Ultimately, art has no autonomy (it is always a function of *financial value* in a money economy) and so cannot be meaningfully treated as existing or even as striving to exist in contradiction with its socio-economic environment.

But the inadequacy of the philosophical constructs provided by modernist and postmodernist aesthetic theory exert a damage far beyond the boundaries of aesthetics. By propagating a cascade of distortions of the economic theory of Marx, the value of objective observation in the realm of political economy in the arts as a whole is effectively undermined.

Taken as a whole, modernist and postmodernist aesthetic theory promotes and attempts to legitimize the discussion and treatment of *artistic value* as an independent realm (*artistic value* exceptionalism). This acts as a major obstacle to the development of a mature and practical political economy of the arts, inhibits, if not positively discourages interdisciplinary communication, and denies the opera community access to the tools by which means it might gain greater self-understanding. Ultimately, it denies the opera community the ability to empower itself and take an active part in controlling the arts policy agendas of the future. We cannot, for instance, begin to consider the *artistic value* benefits and disbenefits of alternative funding systems and opera infrastructures by turning to Adornian aphorism. We must conclude, therefore, that modernism and postmodernism have left us in the midst of a philosophical vacuum in which we have become disconnected from the utility of rational politico-economic enquiry in the arts.

In this study, we have shown, however, that there is an infinite degree of control open to government in the management of *artistic value.* Given the appropriate enabling mechanism, it can chose to direct the *artistic value* agenda or disengage completely from its definition. Moreover, where *artistic value* and *financial value* are explicitly linked in policy terms, government can chose to disengage entirely from the funding of opera, and do so *without moral penalty*.

Artistic value in the current era, then, is the outcome of transactions between buyers and sellers; it is irrevocably a market concept. Arguments about the autonomy or illusory autonomy of art (viz modernism) merely distract us, therefore, from the central and more complex issue which is the nature of the relationship, in practice, between *artistic value* and *financial value*; it distracts us from scrutiny of the justifications for the public funding of opera. Most importantly, it distracts us from critical inter-party debate about the choice of infrastructure and appropriate operational models for opera, given our artistic and political aims: the maximization of *artistic value* and democratic delivery or social justice, respectively. Fostering a balance between those two aims, in the context of an environment of increasing financial constraint, is the considerable challenge which now faces those parties with an interest in the future of opera. The flourishing of art, and human flourishing are concerns which must now be considered as one. Indeed, these concerns are often considered as one and the same; as an identity. But until *artistic value* and *financial value* are treated as inseparable, until opera is properly reunited with the political and economic environment of which it is an integral part, the flourishing of art and human flourishing will forever remain two separate questions.

10. FUTURE WORK

Study of opera costs and modelling of alternative infrastructures

Many of the models pertaining to value in opera which currently exist in the environment, and which have been considered in this study, are now over thirty years old. Given the trend towards accountability and the pressure on government spending as two key factors in the environment in the late 1990s, and given the continued financial intensification of the opera sector in the UK, the political and economic fitness of these models, many of which are predicated on the assumption of a static environment, is now an issue. There is need, therefore, not simply to consider alternative infrastructural solutions, but to model in detail the options which exist; options which, if properly refined, may permit opera to flourish in the UK in the twenty-first century.

Study of the changing cost structures of opera, and search for a standard framework for the analysis of opera costs, would prove a useful starting point. Such work, carried out in conjunction with specialists in accounting and accounting standards would establish much needed ground rules for the reporting of costs, thus permitting much more detailed study of company strategy (via inter-company comparisons) than is currently possible. Notwithstanding the recent developments in corporate governance and accounting standards mentioned in this study, such work would also benefit both opera producers and consumers by increasing, considerably, the transparency of opera sector financial reporting.

The main work which needs to be done (the detailed modelling of alternative infrastructures) requires wide ranging skills. Characterisation of the type of options considered in this study (e.g. franchising, sub-contracting of design and production, maintenance of the status quo and complete withdrawal of government support) needs to be carried out at a detailed level. Firstly, it needs to be asked what objections to change are likely to arise, and whether these originate from valid artistic issues or mere conservatism. The primary aim of such work would be to establish which option is likely to be the preferred alternative, and for what reason i.e. what value might be liberated, and in the long-run, what change in the nature of opera might occur? Such work would aim to provide some justification for the view that substantive artistic innovation would come about as the result of infrastructural change. Most importantly, this work would discover whether parties could agree about a suitable infrastructure for opera, and whether indeed, the questions of human flourishing (social justice aims) and the flourishing of art (maximization of *artistic value*) could meaningfully be considered as one?

Since operas are traditionally months, even years in the making, work would also aim to establish what opportunities might realistically exist to exploit the service characteristics of the artform, especially its intangibility, perishability, and heterogeneity, via new opera forms. It might also be asked whether there was interest in giving new prominence to librettists, and in establishing new forms of relationship between singers and opera companies (e.g. emergence of singer-impresari). Work might also address what opportunity, and what interest, might exist for the exploitation of substitutability i.e. the adaptation of works to different environments and audiences, as an extension and revivification of a tradition which goes back to the roots of opera (e.g. Monteverdi's *Orfeo*, the large and essentially *perishable* nature of Vivaldi's opera *oeuvre* and Handel's re-use and reworking of opera and oratorio arias for different contexts). A useful test case, here, might be to investigate current attitudes towards the idea of the *aria de valise* (suitcase aria, brought by singers and introduced to the work in hand) as an exploration of the issues of perishability and substitutability, together. Important work, here, would be to investigate the type of skills which would be required of composers and producers, and what level of interest there might be in such paradigmatic change in the artform.

Qualitative primary research including interviews with key artistic and management personnel currently working in the opera sector, and quantitative research including study of existing cost structures and budgeting practice, in order to establish the current pattern(s) of investment at company level, would be required. It needs to be asked, initially, what relationship exists between repertoire portfolio management, the constraints of installed capacity (and other investments in overhead) and a company's audience(s)? A wide range of expertise would be required for this task including specialists in economic modelling, public policy, business strategy and marketing, financial management and accounting, business law, and opera production.

Investigation of investment rationale

Further work might usefully aim to establish the opera community's rationale for financial intensification (increasing investment in overhead) which this study has shown. It would be useful to test whether explanation is presented predominantly in terms of *financial value* gains, *artistic value* gains, or some combination of both? Since any change in investment must have an impact on *artistic value* (be it positive, negative, or neutral) the primary aim of such work would be to establish first, whether the nature of the impact could be identified, and second, why, and by whom the realignment of investment was instigated. There is a key difference between passive or creeping change (in reaction to internal or external stimuli) and strategic change which is directed towards an explicit set of *artistic value* and *financial value* goals.

Theoretical development of the transaction model

Utility of the transaction model as an analytical tool may be augmented by further description of the feedback mechanisms which it entails. Such work may be of particular importance where development of alternative infrastructural options for opera posits a pooling of expertise e.g. a franchise model with centralised marketing and fundraising functions as part of the venue management task of government.

Systems theory expertise would be required for this work, which would also need to be carried out with input from fundraising and arts management practitioners if it is to have valid practical application. Equally, once developed, the model might also provide a useful tool in the context of opera historiography e.g. modelling of the complex relationships between publishers, impresari, composers, patrons, box holders and other parties, in particular historical environments.

Study of supply chain inefficiencies .

Study of supply-side inefficiencies associated with the training of singers and the careers of young professionals needs to be made. It needs to be asked whether oversupply of singers is a factor i.e. do opera companies bear the cost of overextended singers in a crowded market? It needs to be asked, also, whether there is sufficient differentiation in the supply-chain (i.e. specialisation of singers) and whether there is, here, a basis for future substantive artistic innovation. Moreover, an important question concerns the possibility of new and artistically interesting opportunities which might exist for singers, in the future, if the opera infrastructure is changed?

Work could also be done, here, to examine the options open to government in its support of the supply-chain (training of singers). Drawing on recent work in this area (viz Towse 1993), a study of training outcomes would prove an invaluable aid to infrastructure design. A long-run tracking study of recent vocal studies graduates, recording the perception of success and failure by singers themselves, as well as the personal value, in terms of earnings, of their training, would be worthwhile. The views of conservatories themselves would also be sought. Since lives and livelihoods are at stake in the training of singers to professional standard, many important moral as well as artistic, economic and political issues would be raised by such study.

Opera infrastructures in the emerging democracies of East Asia

A study of the relationships between emerging funding structures and issues of *artistic value* in the emerging democracies of South and South East Asia should provide an important area of future research. In these regions, state support of the arts is often viewed as a source of political and artistic disautonomy, whereas in the UK the reverse is true: private sector sponsorship is often held to be a source of political and artistic disautonomy. It may be interesting to observe the choices which various governments in South and South East Asia make as regards public provision of opera i.e. what choices are made vis a vis the arts infrastructure and the desire to westernise and industrialise, during periods of fundamental change (this, in contradistinction to the UK, where opera has a long tradition, funding structures are less open to question and have themselves gained momentum). A similar study would be worthwhile in the context of Eastern Europe. In short, there is much to be learned about the perception of value by studying different transactional environments - different political economies of opera.

NOTES

CHAPTER 1

1 We use the term, here, in its collective sense, to mean an electorate. But whereas *electorate* connotes not only right but procedure (the right to vote in elections), *franchise* connotes right, alone. The emphasis is on the moral right of individuals to express opinion, to make *artistic value* judgements which cannot be discounted by others, but must be treated with equal validity. The term is not meant to imply one individual, one vote, but one individual, one valid opinion. Ultimately, the concept is intended to represent the moral and equal right of all individuals (taxpayers and non-taxpayers) to make judgements about *artistic value* which is produced using public funds. This is what is intended by the phrase *full and free participation in the artistic value franchise*, which is used in this study.

2 Organization for Economic Co-operation and Development (OECD).

3 A key criterion of EMU membership is that public deficit be limited to 3% as a proportion of GDP, with potential fines should members exceed this limit.

4 A singular problem for opera in Hungary, as in Eastern Europe as a whole, is the relative lack of audience purchasing power. It is difficult to drive greater efficiency through an arts infrastructure where there is need for heavy subsidisation of ticket prices.

5 The Department of National Heritage, now the Department for Culture, Media, and Sport.

6 Formerly the Department of National Heritage (DNH).

7 Formerly the Arts Pairing Scheme. The scheme is run by Arts and Business, the former Association for Business Sponsorship of the Arts (ABSA).

8 Under National Lottery rules, arts organizations must find up to 25% partnership funding, for instance (see EBA c1997).

9 It is important to be aware of the normative content of the term *public interest* in the context of political discourse - in the context of communitarianism, it certainly implies a residuum of paternalism. Generally, however, the term is used to distinguish between particular interests and the common interest of society as a whole (the sense in which we use it in this study). For a discussion of the history of the term see Gunn JA (1989).

CHAPTER 2

1 Because in a money economy, all such inputs and outputs have costs (monetary or opportunity), they must also be considered to have value. We should be clear, however, that whilst we develop here a theory of the rôle, nature and determination of value (in the context of opera), we are not interested in developing a rigorous, parallel theory of price. The relationship between value and price is a separate, technical issue beyond the scope of this thesis.

2 Outliers here are Opera North and the Royal Opera House, Covent Garden.

Opera North's public income factor (the percentage of total funds from public sources) ranges between 75% and 78% in the early 1980s, whilst the public income factor for the Royal Opera dips to between 30% and 37% in the early to mid 1990s. For data see Appendices 7-2 to 7-10.

3 Whilst an accumulated deficit/surplus is calculated on the balance sheet as total assets less total liabilities and is therefore, correctly, a measure of solvency, in practice a subsidized opera company with an historical accumulated deficit may still be considered solvent though it is technically insolvent. This is because insolvency is a matter of (professional) subjective judgement. A private sector company may appear insolvent on paper, but where the directors believe that future earnings will cover all liabilities, then the company may continue to trade and be treated as a going concern. The same directors will find themselves criminally liable should their belief that the company can meet its liabilities on demand be shown to be unjustifiable. However, because government rarely withdraws its annual subsidy to the major opera companies it supports, companies in the UK subsidized sector are rarely thought to be unable to pay their bills in the short- to medium-term, and are therefore rarely regarded as insolvent in practice. Potentially, however, any ruction with government over financial management which leads to possible disruption of the flow of subsidy can bring an opera company to the brink of insolvency. Recent examples include the Royal Opera House, Covent Garden during its pre-closure phase in the late 1990s, and Scottish Opera in 1999/2000 in the aftermath of an ambitious production investment which resulted in disagreement with government over accounting procedures and cashflow management.

4 Note, investment in assets tends to incur concomittant liabilities e.g. theatre acquisition may incur liability in the form of provision for replacement of fixtures and fittings. A real example is provided by Scottish Opera financial accounts, in which the restoration of the Theatre Royal (i.e. adding new fixtures and fittings) appears as an asset on the balance sheet. In accounting for this investment, the prudent course would be to take account of the fixed life of this asset (the restoration will suffer wear and tear and need replaced at some time). This might be done either by depreciating the asset, so that valuation will be true and fair in the event of disposal. Alternatively, a provision (liability) could be made by creating a cash or paper asset. Since Scottish Opera has chosen to do neither, the accounts are qualified by the company's auditors to this extent i.e. that because the directors have chosen not to take depreciation on restoration of the Theatre Royal, and not to recognise associated liabilities, its reported value does not conform to the required condition of prudence (see e.g. report of the auditors in SO ARA 1994).

5 Note, the most common, conventional measure of value-added is sales revenue less all bought-in materials and services, but since we are dealing primarily with the UK subsidized opera sector (a non-profit sector), the contribution of the sector to the economy in terms of wealth creation is not relevant. Our use of

the concept of value-added should also not be confused with the method sometimes adopted for government services, of measuring factor input costs as a proxy measure of value contributed to Gross Domestic Product. By value-added in this study we mean changes to the degree of establishment of the opera company as measured by the total asset value stated on its balance sheet.

6 The term reproducing is meant in the sense used in classical economics. Specifically, the viability condition of classical economics demands that some output be forgone for the purposes of maintaining production in the following period e.g. in a one sector corn economy, a proportion of seed must be saved if planting is to take place in the following year in such a way as to reproduce the surplus value yielded in the current. Likewise the opera company needs to produce and save some *financial value* (e.g. box office income) to survive from year to year.

7 Note, although government represents the *artistic value* franchise, and the franchise can influence government policy, the process of representation and influence between government and franchise is external to the model. Political lobbying and arts advocacy are separate issues and franchise opinion in this way enters the model as the parameter, G.

8 Franchisees have a right to an opinion about opera funding whether or not they are consumers of opera. All citizens are entitled to an opinion about National Health Service funding, for instance, whether or not they have current need of its services.

9 Note, the transformation problem of Marxian economics is only a problem insofar as an objective theory of value is sought. The relationship between value and price is not our concern in this thesis.

CHAPTER 3

1 Glyndebourne was home to the English Opera Group from 1946. Later entrants, to what is now the subsidized sector, include English National Opera North, founded 1975, which became Opera North in 1982, and Scottish Opera, founded 1962.

2 In mechanical engineering the term *driver* is given to that part of a machine to which the effort is applied; the *follower* is that part which applies the final force to the resistance e.g. belt and pulley transmission where power is transmitted from a driver pulley by means of belting to a follower pulley. Epicyclic (differential) gears use this principle in a more complex fashion, allowing the relationship between driver and follower to vary (differential speed).

3 *...this panel believes that as a general principle the nonprofit performing arts organization should not be expected to pay their* [sic] *way at the box office. Indeed they cannot do so and*

still fulfill their cultural mission (Rockefeller Panel Report cited in Salem 1973:65).

4 The cost can be *directly* associated with the production of a cost unit (here, an individual performance) or with the activity associated with a cost centre (here, for instance, the performance but not rehearsal costs of the chorus; the latter forming a development of production cost which cannot *directly* be associated with a particular performance).

5 The Task Force at 1997 included: Richard Branson (entrepreneur), David Putnam (film producer), Paul Smith (clothes designer), Gail Rebuck (publisher), Alan McGee (record company magnate) (DCMS 178/1997).

6 Thomas Adès, opera composer and artistic director of the Aldeburgh Festival (1999).

CHAPTER 4

1 Adorno is here quoting Marx from *Das Kapital* (see Marx 1887:77).

2 Real, that is, in the context of the labour theory of value (value as a measure of labour expended).

3 Adorno was of partly Jewish extraction.

4 Music of the Schoenberg school (i.e. dodecaphonic composition).

5 Over-the-counter pharmaceuticals.

6 Performance at Adorno and Analysis conference, Royal Musical Association Society for Music Analysis and Critical Musicology, University of Bristol, February 1997, by Jane Manning (soprano) and David Mason (piano). Programme included *Vier Lieder nach Gedichten von Stefan Georg* Op7 (1944).

CHAPTER 7

1 Whilst we have no evidence that problems or conflicts of interest do occur, such interlinkage reinforces the external view that board members belong to a self-electing and therefore self-perpetuating élite which, because it is not fully open to scrutiny, cannot legitimately claim to represent *artistic value* franchise interests other than from the point of view of a particular interest group or faction within the franchise.

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APPENDICES

Appendix 1-1 : Calculation of real and nominal Arts and Business sponsorship spend

Calculation of real and nominal growth rates of Arts & Business (formerly ABSA) sponsorship spend

YEAR END £ million	1991	1992	1993	1994	1995	1996	1997
Total sponsorship [current prices]	**57.2**	**65.5**	**57.7**	**69.5**	**82.8**	**79.8**	**95.0**
Deflator for year [a]	1.00	0.96	0.94	0.93	0.90	0.87	0.80
Total sponsorship [constant prices]	**57.2**	**62.9**	**54.2**	**64.6**	**74.5**	**69.4**	**76.0**
Total sponsorship [current prices] [b]	57.2	65.5	57.7	69.5	82.8	79.8	95.0
Base year value 1991	57.2	57.2	57.2	57.2	57.2	57.2	57.2
Nominal growth rate (%)	**100**	**115**	**101**	**122**	**145**	**140**	**166**
Total sponsorship [constant prices]	57.2	62.9	54.2	64.6	74.5	69.4	76.0
Base year value 1991	57.2	57.2	57.2	57.2	57.2	57.2	57.2
Real growth rate (%)	**100**	**110**	**95**	**113**	**130**	**121**	**133**

Source : ABSA (Corr.1997a)

Note [a] : Calculated by taking the inverse ratio of the respective annual averages of the Retail Prices Index (all items) (GSS 1997 section 1.7).

[b] Additional data not included in this table: total sponsorship in current prices 1976 = £0.6m, 1981 = £7.0m, 1989 = £30.0m (source as above)

Appendix 5-1a : Description of the environment in macroeconnomic terms (a)

MACROECONOMIC DATA : GENERAL INDICATORS

YEAR	GDP AT MARKET PRICES (£ million) [AT 1990 PRICES]	% CHANGE IN GDP	ANNUAL RATE OF INFLATION [BASE=1991] [All item RPI]	PERSONAL SAVING RATIO AS % OF PERSONAL DISPOSABLE INCOME	INDEX OF REAL PERSONAL DISPOSABLE INCOME [1990 = 100]	TOTAL WORKFORCE '000 Note [a]	TOTAL UNEMPLOYED '000 Note [b]	TOTAL UNEMPLOYED AS % OF WORKFORCE	STERLING EXCHANGE RATE AGAINST US DOLLAR Note [c]
1965	308905		4.7	9.4	52.1				2.7962
1966	314748	1.9	3.8	9.8	53.2				2.7932
1967	321961	2.3	2.5	8.9	54.0				2.7901
1968	335078	4.1	4.8	8.0	55.0				2.3937
1969	341988	2.1	5.1	8.3	55.5				2.3903
1970	349794	2.3	6.5	9.1	57.6				2.3960
1971	356743	2.0	9.2	7.4	58.3	25162	720.2	2.9	2.4440
1972	369235	3.5	7.5	9.2	63.2	25472	685.1	2.7	2.5020
1973	396407	7.4	9.1	10.1	67.3	25574	459.5	1.8	2.4526
1974	389674	-1.7	15.9	10.7	66.8	25806	543.7	2.1	2.3402
1975	386867	-0.7	24.1	11.5	67.2	26080	942.1	3.6	2.2198
1976	397610	2.8	16.6	10.8	66.9	26140	1107.3	4.2	1.8046
1977	407002	2.4	15.9	9.2	65.5	26249	1198.4	4.6	1.7455
1978	431073	5.9	8.2	10.9	70.4	26461	1125.0	4.3	1.9197
1979	432849	0.4	13.4	12.1	74.4	26661	1052.2	3.9	2.1225
1980	423490	-2.2	18.0	13.4	75.5	26716	1594.9	6.0	2.3281
1981	418026	-1.3	11.9	12.6	74.9	26593	2340.6	8.8	2.0254
1982	425252	1.7	8.6	11.3	74.5	26440	2639.1	10.0	1.7489
1983	440888	3.7	4.5	9.7	76.5	27028	2818.7	10.4	1.5158
1984	451131	2.3	5.0	11.2	79.2	27600	2956.6	10.7	1.3364
1985	468071	3.8	6.0	10.7	81.8	27801	3040.6	10.9	1.2976
1986	488122	4.3	3.4	8.6	85.4	27945	3080.5	11.0	1.4672
1987	511615	4.8	4.2	7.3	88.7	28318	2643.3	9.3	1.6392
1988	537215	5.0	4.9	6.2	94.2	28604	2138.6	7.5	1.7796
1989	548940	2.2	7.8	6.9	98.0	28769	1680.7	5.8	1.6383
1990	551118	0.4	9.4	8.2	100.0	28769	1725.2	6.0	1.7864
1991	540308	-2.0	5.9	10.1	99.9	28510	2483.3	8.7	1.7685
1992	537448	-0.5	3.7	12.0	101.9	28306	2867.2	10.1	1.7665
1993	548622	2.1	1.6	11.5	103.9	28250	2845.2	10.1	1.5015
1994	572301	4.3	2.4	10.4	105.5	28176	2508.7	8.9	1.5329
1995	587912	2.7	3.5	11.7	108.9	28150	2264.6	8.0	1.5783
1996	601720	2.3	2.4	11.9	113.0	28002	2025.2	7.2	1.5617

Source : Office for National Statistics (1997). Economic trends : annual supplement 1997 edition (No.23) (HMSO : London). [Tables : 1.2, 1.6, 3.1, 3.2, 5.1].

NOTES :

[a] Total workforce consists of the workforce in employment and the unemployed (claimants). Figure represents 4th quarter data.

[b] Total unemployed consists of claimants aged 18 years or over. The source data is seasonally adjusted and takes account of previous discontinuities.

[c] Represents average of daily telegraphic transfer rates in London.

Appendix 5-1b : Description of the environment in macroeconomic terms (b)

MACROECONOMIC DATA : UK CENTRAL GOVERNMENT SPENDING (RECREATIONAL & CULTURAL AFFAIRS)

YEAR	CENTRAL GOVERNMENT EXPENDITURE: TOTAL (£ million) [CURRENT PRICES]	DEFLATOR [BASE=1991]	CENTRAL GOVERNMENT EXPENDITURE: TOTAL (£ million) [CONSTANT PRICES]	ANNUAL CHANGE IN REAL CENTRAL GOVERNMENT EXPENDITURE TOTAL [BASE=1991]	CENTRAL GOVERNMENT EXPENDITURE: RECREATIONAL & CUTLURAL AFFAIRS (£ million) [CURRENT PRICES]	DEFLATOR [BASE=1991]	CENTRAL GOVERNMENT EXPENDITURE: RECREATIONAL & CUTLURAL AFFAIRS (£ million) [CONSTANT PRICES]	ANNUAL CHANGE IN REAL CENTRAL GOVERNMENT EXPENDITURE: RECREATIONAL & CULTURAL AFFAIRS [BASE=1991]	RECREATIONAL & CULTURAL AFFAIRS SPENDING AS A % TOTAL CENTRAL GOVERNMENT EXPENDITURE
1977	61,864	2.93	181,262		808	2.93	2367		1.31%
1978	72,226	2.70	195,010	0.08	942	2.70	2543	0.07	1.30%
1979	85,505	2.39	204,357	0.05	1,138	2.39	2720	0.07	1.33%
1980	104,076	2.03	211,274	0.03	1,463	2.03	2970	0.09	1.41%
1981	116,999	1.81	211,768	0.00	1,569	1.81	2840	-0.04	1.34%
1982	128,622	1.66	213,513	0.01	1,680	1.66	2789	-0.02	1.31%
1983	138,509	1.56	216,074	0.01	1,950	1.56	3042	0.09	1.41%
1984	146,854	1.51	221,750	0.03	2,098	1.51	3168	0.04	1.43%
1985	157,764	1.43	225,603	0.02	2,241	1.43	3205	0.01	1.42%
1986	162,339	1.39	225,651	0.00	2,446	1.39	3400	0.06	1.51%
1987	169,241	1.33	225,091	0.00	2,599	1.33	3457	0.02	1.54%
1988	178,237	1.27	226,361	0.01	2,828	1.27	3592	0.04	1.59%
1989	197,087	1.17	230,592	0.02	3,185	1.17	3726	0.04	1.62%
1990	215,543	1.07	230,631	0.00	3,655	1.07	3911	0.05	1.70%
1991	228,339	1.00	228,339	-0.01	3,914	1.00	3914	0.00	1.71%
1992	254,503	0.96	244,323	0.07	4,168	0.96	4001	0.02	1.64%
1993	272,293	0.94	255,955	0.05	4,263	0.94	4007	0.00	1.57%
1994	284,848	0.93	264,909	0.03	4,353	0.93	4048	0.01	1.53%
1995	303,877	0.90	273,489	0.03	4,289	0.90	3860	-0.05	1.41%
1996		0.87			4,579	0.87	3984	0.03	

Sourc Central Statistical Office (1987 and 1997). United Kingdom National Accounts : The CSO blue book (Government Statistical Service, HMSO : London) [Table 9.4].

Appendix 6-1 : Calculation of opera value index

CALCULATION OF OPERA VALUE INDEX

	TO/PERF [CONSTANT]				SECTOR	INDEX VALUE
YEAR	ROH	ENO	WNO	SO	AVERAGE	BASE = 1982
1976	70.9972	41.7353		43.5611	52.0979	0.73
1977		43.5390		54.4204	48.9797	0.69
1978	80.2137	54.1400		68.3025	67.5521	0.95
1979	86.5058		45.1751	75.1175	68.9328	0.97
1980		51.7161	54.9531	92.6692	66.4462	0.93
1981	93.0303		51.2062	49.4921	64.5762	0.90
1982	106.1481	77.3198	54.7680	47.1878	71.3559	1.00
1983	101.6721	72.2960	71.4770	69.0475	78.6232	1.10
1984	124.2215	94.0118	73.0636	75.9179	91.8037	1.29
1985	104.4932	107.7087	65.3651	64.8162	85.5958	1.20
1986	110.1707	87.6347	88.3166	72.5329	89.6637	1.26
1987	131.9436	84.7009	88.2624	74.5695	94.8691	1.33
1988	129.0843	87.4149	82.2313	63.2425	90.4932	1.27
1989	136.2911	89.2342	79.1960	60.6434	91.3412	1.28
1990	146.8993	88.7741	78.8667	72.0033	96.6358	1.35
1991	159.3777	98.8985	96.6171	67.3621	105.5638	1.48
1992		93.5408	85.0289	71.1835	83.2511	1.17
1993	153.7195	96.2429	91.9052	82.7631	106.1577	1.49
1994	149.0386	93.3129	107.3652	86.8681	109.1462	1.53
1995	171.8129	112.8909	83.5831	97.7003	116.4968	1.63
1996	201.6602	109.8732		98.2369	136.5901	1.91

Note Due to breaks in the data contained in the published annual reports and accounts, not all companies are represented in each year

Source :

See Appendices section 7

Appendix 6-2 : Transformational measures : UK subsidized sector (main companies)

YEAR	TURNOVER [CONSTANT]					SECTOR	SECTOR RATIO (T/O)	PERFORMANCES					SECTOR	SECTOR RATIO (PERFS)	EMPLOYEES [AVG FTE]					SECTOR	SECTOR RATIO (EMPS)
	ROH	ENO	WNO	SO	ON	TOTAL	[BASE = 1991]	ROH	ENO	WNO	SO	ON	TOTAL	[BASE = 1991]	ROH	ENO	WNO	SO	ON	TOTAL	[BASE = 1991]
1970											75										
1971		9,665,630									89										
1972		9,998,814									97										
1973	16,317,795	10,600,324						264			96				805						
1974	16,923,004	9,651,900						261			109				818						
1975	17,638,746	9,965,041		4,540,842				250			102				833						
1976	17,820,298	10,809,450	5,626,130	5,314,448		39,570,325	0.49	251	259		122				827	520		134			
1977	19,048,126	11,450,748	5,568,181	6,530,448		42,597,503	0.53	245	263		120					530		176			
1978	19,892,998	12,289,782	5,790,695	6,215,530		44,189,005	0.55	248	227	133	91		699	0.93	858	535		180			
1979	20,242,366		6,008,283	6,084,515				234	301	133	81		749	1.00	884	700	250	181		2015	0.92
1980	21,752,079	16,135,423	6,319,609	6,301,508		50,508,619	0.63		312	115	68					720	260	203			
1981	21,955,159	16,335,878	6,656,802	6,384,475		51,332,313	0.64	236		130	129				911	718	260	242		2131	0.97
1982	25,263,250	14,458,801	6,845,994	5,992,849	4,404,543	56,965,436	0.71	238	187	125	127	113	790	1.05	908	570	260	236	150	2124	0.97
1983	23,994,619	14,025,423	7,433,612	6,076,178	4,693,506	56,223,339	0.70	236	194	104	88	110	732	0.97	901	593	283	227	148	2152	0.98
1984	28,322,496	15,982,005	8,036,996	7,364,040	5,174,181	64,879,719	0.81	228	170	110	97	110	715	0.95	900	602	299	210	148	2159	0.98
1985	27,063,751	17,664,228	7,647,717	6,676,065	5,376,048	64,427,809	0.80	259	164	117	103	114	757	1.01	901	609	255	211	156	2132	0.97
1986	29,525,755	17,702,207	8,036,809	6,818,092	5,386,018	67,468,881	0.84	268	202	91	94	94	749	1.00	906	610	268	204	156	2144	0.98
1987	31,006,756	17,617,780	8,561,448	7,307,807	5,415,165	69,908,956	0.87	235	208	97	98	93	731	0.97	898	615	290	198	157	2158	0.98
1988	33,045,591	18,357,127	8,223,126	6,830,191	5,758,790	72,214,824	0.90	256	210	100	108	89	763	1.02	908	601	242	180	150	2081	0.95
1989	35,026,817	18,649,952	8,964,443	7,337,850	5,977,604	75,956,666	0.94	257	209	113	121	104	804	1.07	925	586	258	189	146	2104	0.96
1990	36,577,918	18,908,891	8,988,034	6,840,315	6,118,332	77,433,490	0.96	249	213	116	95	124	797	1.06	960	599	283	200	144	2186	1.00
1991	37,135,000	19,483,000	10,724,495	7,409,829	5,799,462	80,551,786	1.00	233	197	111	110	100	751	1.00	996	588	245	212	156	2197	1.00
1992	39,716,160	20,485,440	9,948,383	7,687,817	7,005,168	84,842,968	1.05		219	117	108	107			970	586	311	202	160	2229	1.01
1993	41,657,980	20,692,220	11,304,336	7,696,973	7,818,269	89,169,777	1.11	271	215	123	93	111	813	1.08	935	577	349	200	155	2216	1.01
1994	40,091,370	19,968,960	11,380,714	7,557,527	8,036,065	87,034,636	1.08	269	214	106	87	118	794	1.06	935	584	336	203	157	2215	1.01
1995	42,609,600	19,755,900	9,277,727	7,718,321	7,815,356	87,176,903	1.08	248	175	111	79	116	729	0.97	912	558	301	203	154	2128	0.97
1996	48,801,780	20,766,030		7,466,004	7,493,394			242	189		76	105			841	564		183	158		

KEY : T/O = TURNOVER, PERFS = PERFORMANCES, EMPS = EMPLOYEES

Source : see Appendices section 7

Appendix 6-3 : Relative change in company turnover - UK subsidized sector (main companies)

RATE OF CHANGE IN TURNOVER [BASE YEAR = 1976]				
YEAR	ROH	ENO	WNO	SO
1970				
1971		0.89		
1972		0.93		
1973	0.92	0.98		
1974	0.95	0.89		
1975	0.99	0.92		0.85
1976	1.00	1.00	1.00	1.00
1977	1.07	1.06	0.99	1.23
1978	1.12	1.14	1.03	1.17
1979	1.14		1.07	1.14
1980	1.22	1.49	1.12	1.19
1981	1.23	1.51	1.18	1.20
1982	1.42	1.34	1.22	1.13
1983	1.35	1.30	1.32	1.14
1984	1.59	1.48	1.43	1.39
1985	1.52	1.63	1.36	1.26
1986	1.66	1.64	1.43	1.28
1987	1.74	1.63	1.52	1.38
1988	1.85	1.70	1.46	1.29
1989	1.97	1.73	1.59	1.38
1990	2.05	1.75	1.60	1.29
1991	2.08	1.80	1.91	1.39
1992	2.23	1.90	1.77	1.45
1993	2.34	1.91	2.01	1.45
1994	2.25	1.85	2.02	1.42
1995	2.39	1.83	1.65	1.45
1996	2.74	1.92		1.40

Source : see Appendix 6-2

Appendix 6-4 : Intercompany comparison of turnover components

INTERCOMPANY COMPARISON OF TURNOVER COMPONENTS			
ALL DATA IN CONSTANT PRICES			
	£	£	
TURNOVER :			% CHANGE
	1976	1995	
ROH Group	21,522,884	51,940,800	141%
ENO	10,809,450	19,755,900	83%
SO	5,314,448	7,718,321	45%
PUBLIC SOURCE COMPONENT :			
	1976	1995	
ROH Group	11,910,200	17,613,900	48%
ENO	7,521,232	10,630,800	41%
SO	3,445,574	4,789,238	39%
PRIVATE SOURCE COMPONENT :			
	1976	1995	
ROH Group	9,612,684	34,326,900	257%
ENO	3,288,218	9,125,100	178%
SO	1,868,875	2,929,083	57%
BOX OFFICE COMPONENT :			
	1976	1995	
ROH Group (a)	7,030,857	17,024,400	142%
ENO	3,208,730	6,001,200	87%
SO	no data	no data	-
BOX OFFICE AS % OF PRIVATE SOURCE COMPONENT :			
	1976	1995	
ROH Group	73%	50%	
ENO	98%	66%	
SO	no data	no data	
PUBLIC SOURCES AS % OF TURNOVER :			
	1976	1995	
ROH Group	55%	34%	
ENO	70%	54%	
SO	65%	62%	
Note (a)	Excludes tour income which is reported on a net contribution basis only		

Source :

See Appendices section 7

Appendix 6-5 : Trends in real turnover per performance - UK subsidized sector (main companies)

TRENDS IN REAL TURNOVER PER PERFORMANCE: UK SUBSIDIZED SECTOR (MAIN COMPANIES)

	TO/PERF {CONSTANT] (£000)									
YEAR	ROH	CHANGE ON BASE [1982]	ENO	CHANGE ON BASE [1982]	WNO	CHANGE ON BASE [1982]	SO	CHANGE ON BASE [1982]	ON	CHANGE ON BASE [1982]
1976	70.9972	0.67	41.7353	0.54			43.5611	0.92		
1977			43.5390	0.56			54.4204	1.15		
1978	80.2137	0.76	54.1400	0.70			68.3025	1.45		
1979	86.5058	0.81			45.1751	0.82	75.1175	1.59		
1980			51.7161	0.67	54.9531	1.00	92.6692	1.96		
1981	93.0303	0.88			51.2062	0.93	49.4921	1.05		
1982	106.1481	1.00	77.3198	1.00	54.7680	1.00	47.1878	1.00	38.9783	1.00
1983	101.6721	0.96	72.2960	0.94	71.4770	1.31	69.0475	1.46	42.6682	1.09
1984	124.2215	1.17	94.0118	1.22	73.0636	1.33	75.9179	1.61	47.0380	1.21
1985	104.4932	0.98	107.7087	1.39	65.3651	1.19	64.8162	1.37	47.1583	1.21
1986	110.1707	1.04	87.6347	1.13	88.3166	1.61	72.5329	1.54	57.2981	1.47
1987	131.9436	1.24	84.7009	1.10	88.2624	1.61	74.5695	1.58	58.2276	1.49
1988	129.0843	1.22	87.4149	1.13	82.2313	1.50	63.2425	1.34	64.7055	1.66
1989	136.2911	1.28	89.2342	1.15	79.3314	1.45	60.6434	1.29	57.4770	1.47
1990	146.8993	1.38	88.7741	1.15	77.4831	1.41	72.0033	1.53	49.3414	1.27
1991	159.3777	1.50	98.8985	1.28	96.6171	1.76	67.3621	1.43	57.9946	1.49
1992			93.5408	1.21	85.0289	1.55	71.1835	1.51	65.4689	1.68
1993	153.7195	1.45	96.2429	1.24	91.9052	1.68	82.7631	1.75	70.4349	1.81
1994	149.0386	1.40	93.3129	1.21	107.3652	1.96	86.8681	1.84	68.1022	1.75
1995	171.8129	1.62	112.8909	1.46	83.5831	1.53	97.7003	2.07	67.3738	1.73
1996	201.6602	1.90	109.8732	1.42			98.2369	2.08	71.3657	1.83
1997									69.9566	1.79

Note Due to breaks in the data contained in the published annual reports and accounts, not all companies are represented in each year

Source : See Appendices section 7

Appendix 6-6 : Calculation of staff costs in real terms - Royal Opera House, Covent Garden, 1983-93

CALCULATION OF STAFF COSTS IN REAL TERMS : ROYAL OPERA HOUSE, COVENT GARDEN 1983-93

YEAR	EMPLOYEES Group total	PERFORMANCES RO+RB performances at Covent Garden	WAGE & SALARY COSTS [CURRENT] Net of Social Security and pension costs (£)	DEFLATOR	WAGE & SALARY COSTS [CONSTANT] Net of Social Security and pension costs (£). Note [a]	AVERAGE REMUNERATION Avg remuneration [constant] per employee (£)	TURNOVER [CURRENT] Group total (£)	TURNOVER [CONSTANT] Group total (£)	TURNOVER [CONSTANT] Corrected for allowable activity (£)	UNIT LABOUR COST PER PERFORMANCE (£)
1983	1043	236	11,510,000	1.56	17,955,600	17,215	18,887,000	29,463,720	23,994,619	72.9
1984	1042	228	12,359,000	1.51	18,662,090	17,910	23,049,000.	34,803,990	28,322,496	78.6
1985	1045	259	11,712,000	1.43	16,748,160	16,027	23,741,000	33,949,630	27,063,751	61.9
1986	1051	268	12,645,000	1.39	17,576,550	16,724	26,340,000	36,612,600	29,525,755	62.4
1987	1044	235	15,163,000	1.33	20,166,790	19,317	30,434,000	40,477,220	31,006,756	82.2
1988	1033	256	16,170,000	1.27	20,535,900	19,880	30,903,000	39,246,810	33,045,591	77.7
1989	1073	257	18,018,000	1.17	21,081,060	19,647	35,066,000	41,027,220	35,026,817	76.4
1990	1112	249	22,035,000	1.07	23,577,450	21,203	39,485,000	42,248,950	36,577,918	85.2
1991	1152	233	24,321,000	1	24,321,000	21,112	44,129,000	44,129,000	37,135,000	90.6
1992	1128		27,669,000	0.96	26,562,240	23,548	48,754,000	46,803,840	39,716,160	
1993	1096	271	28,529,000	0.94	26,817,260	24,468	54,822,000	51,532,680	41,657,980	90.3
PERCENTAGE INCREASE ON 1983					49%			75%	74%	24%
ABSOLUTE INCREASE ON 1983					8.862 million			22.069 million	17.663 million	17.343 million

Source : See Appendices section 7

Note [a] *Source : ROH ARA (1983-93)*

Appendix 6-7 : Explanation of increases in real costs - Royal Opera House, Covent Garden, 1983-93

EXPLANATION OF COST INCREASES IN REAL TERMS : ROYAL OPERA HOUSE, COVENT GARDEN 1983-93

COST COMPONENT ROH Group	1983 [CURRENT]	DEFLATOR	1983 [CONSTANT]	1993 [CURRENT]	DEFLATOR	1993 [CONSTANT]	ABSOLUTE INCREASE 1983-93 (£ million)
Performance & rehearsal	8,421,000	1.56	13,136,760	21,285,000	0.94	20,007,900	6.871
Production, staging & transport	4,573,000	1.56	7,133,880	12,955,000	0.94	12,177,700	5.044
Administration & premises	3,405,000	1.56	5,311,800	10,518,000	0.94	9,886,920	4.575
UK & overseas touring	2,026,000	1.56	3,160,560	6,352,000	0.94	5,970,880	2.810
Wage & salaries (net Social Security & pensions)	11,510,000	1.56	17,955,600	28,529,000	0.94	26,817,260	8.862
			TOTAL ROH GROUP COST INCREASES EXPLAINED				**28.162**

Source : ROH ARA (1983, 1993)

Appendix 6-8 : Calculation of trends in output for UK subsidized sector

INTERCOMPANY COMPARISON OF PRODUCTION NUMBERS AND PRODUCTION RUNS

YEAR	ROH TOTAL PRODS [a]	ROH TOTAL PERFS [b]	ROH AVG RUN	ENO TOTAL PRODS [c]	ENO TOTAL PERFS [c]	ENO AVG RUN	WNO TOTAL PRODS [d]	WNO TOTAL PERFS [d]	WNO AVG RUN	SO TOTAL PRODS [e]	SO TOTAL PERFS [e]	SO AVG RUN	ON TOTAL PRODS [f]	ON TOTAL PERFS	ON AVG RUN	SECTOR AVG : PRODS	SECTOR AVG : PERFS	SECTOR AVG : RUN
1970											75							
1971											89							
1972											97						97	
1973	24	167	7								96					24	132	7
1974	26	176	7								109					26	143	7
1975	26	153	6								102					26	128	6
1976	26	172	7	25	259	10				13	122	9				21	184	9
1977	24	130	5	24	263	11				11	120	11				20	171	9
1978	25	146	6	30	227	8	13	133	10	15	91	6				21	149	7
1979	24	132	6	25	301	12	14	133	10	15	81	5				20	162	8
1980				23	312	14	10	115	12	10	68	7				14	124	11
1981	21	141	7				14	130	9		129					18	133	8
1982	21	135	6	21	187	9	12	125	10		127		12	113	9	17	137	9
1983	25	143	6	22	194	9	11	104	9		88		14	110	8	18	128	8
1984	20	117	6	22	170	8	11	110	10		97			110		18	121	8
1985	24	144	6		164		11	117	11		103			114		18	128	8
1986	26	121	5		202		8	91	11		94			94		17	120	8
1987	17	135	8		208		12	97	8		98			93		15	126	8
1988	24	150	6		210		8	100	13		108			89		16	131	9
1989	21	142	7		209			113		11	121	11		104		16	138	9
1990	19	129	7		213			116		9	95	11		124		14	135	9
1991	18	135	8		197			111		10	110	11		100		14	131	9
1992	22	145	7		219		8	117	15	9	108	12		107		13	139	11
1993	22	153	7		215		9	123	14	8	93	12		111		13	139	11
1994	21	162	8		214		10	106	11	9	87	10		118		13	137	9
1995	21	142	7	17	175	10	8	111	14	8	79	10		116		14	125	10
1996	17	132	8	18	189	11				7	76	11		105		14	126	10

Notes
[a] Covent Garden opera performances only (source: Cal).
[b] RO mainscale opera only (see also Appendix 7-3).
[c] Source for years 1985-93: Acc. This source does not contain production data. See also Appendix 7-5)
[d] Mainscale opera only. Source 1989-91: Acc., otherwise source: Cal. (see also Appendix 7-7).
[e] Mainscale opera only. Source: Cal. (see also Appendix 7-1).
[f] Source 1982-83: Cal. Source for remaining years: Acc. (does not include production data). (See also Appendix 7-9).

Sources
Acc. Performance figures as stated in Annual report and accounts for relevant year
Cal. Performance figures computed from published calendar [see methodology].

Key
PRODS = Productions
PERFS = Performances
AVG RUN = Average run (by performances)

Appendix 6-8a : Calculation of trends in output - Royal Opera House, Covent Garden

OPERA PERFORMANCES AS A PROPORTION OF TOTAL OUTPUT : ROH				
YEAR	PERFORMANCES AT COVENT GARDEN: TOTAL (RO+RB)	RO ONLY	RO PERFORMANCES AS PERCENTAGE OF TOTAL	LINEAR TREND: RO CONTRIBUTION TO TOTAL PERFORMANCES [BY DECADE]
1970				
1971				
1972				
1973	264	167	63%	0.66
1974	261	176	67%	0.65
1975	250	153	61%	0.63
1976	251	172	69%	0.61
1977	245	130	53%	0.60
1978	248	146	59%	0.58
1979	234	132	56%	0.56
1980				
1981	236	141	60%	0.57
1982	238	135	57%	0.57
1983	236	143	61%	0.56
1984	228	117	51%	0.56
1985	259	144	56%	0.56
1986	268	121	45%	0.55
1987	235	135	57%	0.55
1988	256	150	59%	0.54
1989	257	142	55%	0.54
1990	249	129	52%	0.55
1991	233	135	58%	0.56
1992		145		0.56
1993	271	153	56%	0.57
1994	269	162	60%	0.57
1995	248	142	57%	0.57
1996	242	132	55%	0.58

Source : see Appendix 7-3

Appendix 6-9 : Taxonomy plot data - summary of companies

TAXONOMY PLOT DATA : DECADE SUMMARIES

Source : see Appendices section 7

COMPANY	DECADE	TURNOVER [CONSTANT] DECADE	EMPLOYEES [AVG FTE] DECADE	PERFORMANCES DECADE	TO/PERF [CONSTANT] DECADE AVG	EMP/PERF [AVG FTE] DECADE AVG
					Note [a]	Note [a]
ROH	1970s	108,835,205	5025	1508	72.1719	3.33
	1980s	255,204,191	8158	2213	115.3205	3.69
	1990s	246,873,648	5579	1512	163.2762	3.69
ENO	1970s	34,549,979	1585	749	46.1281	2.12
	1980s	134,457,524	4786	1544	87.0839	3.10
	1990s	140,060,441	4056	1422	98.4954	2.85
WNO	1980s	76,726,556	2675	1102	69.6248	2.43
	1990s	61,623,689	1825	684	90.0931	2.67
SO	1970s	24,144,941	671	414	58.3211	1.62
	1980s	67,089,055	2100	1033	64.9458	2.03
	1990s	52,376,786	1403	648	80.8284	2.17
ON	1980s	42,185,855	1211	827	51.0107	1.46
	1990s	57,711,317	1242	890	64.8442	1.40
GP	1980s	49,683,237	1035	795	62.4946	1.30
	1990s	55,171,882	1169	664	83.0902	1.76
OR	1990s	191,906	105	41	4.6806	2.56

Note [a] Decade averages are computed from full data points only, that is: years in which all three variables (employees, performances, turnover) are known.

Key EMPS = Employees, PERF = Performances, T/O = Turnover
AVG FTE = Average full-time equivalents

TAXONOMY PLOT DATA : DECADE SUMMARY : CURVE FITTING

DECADE	COMPANY	TO/PERF [CONSTANT] DECADE AVG	EMP/PERF [AVG FTE] DECADE AVG
1980s	ROH	115.3205	3.69
	ENO	87.0839	3.10
	WNO	69.6248	2.43
	SO	64.9458	2.03
1990s	ROH	163.2762	3.69
	ENO	98.4954	2.85
	WNO	90.0931	2.67
	SO	80.8284	2.17

Appendix 7-1 : Taxonomy plot - Scottish Opera

TAXONOMY PLOT DATA : SCOTTISH OPERA

Source : Annual report and accounts (1963-1996)

YEAR	EMPLOYEES [AVG FTE]	PERFORMANCES Mainscale	Mediumscale	Smallscale	Data source	TURNOVER [CURRENT]	NORMALISATION DEFLATOR	TURNOVER [CONSTANT]	PLOT DATA TO/PERF [CONSTANT]	EMP/PERF [AVG FTE]
			Note [a]	Note [a]	Refer to key				£000	
963a	0	6			Oliver	7,557	9.87	74,588	12.4313	0.00
963b	1	13			Oliver	22,658	9.87	223,634	17.2027	0.08
1964	1	16			Oliver	34,030	9.56	325,327	20.3329	0.06
1965	2	19			Oliver	46,112	9.11	420,080	22.1095	0.11
1966	6	29			Oliver	83,269	8.77	730,269	25.1817	0.21
1967		40			Oliver	19,834	8.57	169,977		
1968	30	57			Oliver	133,539	8.19	1,093,684	19.1874	0.53
1969		63			Oliver		7.76			
1970		75			Oliver		7.30			
1971		89			Oliver		6.67			
1972		97			Oliver		6.23			
1973		96			Acc.		5.70			
1974		109	1:17	15	Acc.		4.93			
1975		102	1:28		Acc.	1,143,789	3.97	4,540,842		
1976	134	122		1:18	Cal.	1,563,073	3.40	5,314,448	43.5611	1.10
1977	176	120		2:21	Cal.	2,228,822	2.93	6,530,448	54.4204	1.47
1978	180	91			Cal.	2,302,048	2.70	6,215,530	68.3025	1.98
1979	181	81			Cal.	2,545,822	2.39	6,084,515	75.1175	2.23
1980	203	68	1:17		Cal.	3,104,191	2.03	6,301,508	92.6692	2.99
1981	242	129		1:27 + 224	Acc.	3,527,334	1.81	6,384,475	49.4921	1.88
1982	236	127		1:47 + 283	Acc.	3,610,150	1.66	5,992,849	47.1878	1.86
1983	227	88		3:59 + 206	Acc.	3,894,986	1.56	6,076,178	69.0475	2.58
1984	210	97			Acc.	4,876,848	1.51	7,364,040	75.9179	2.16
1985	211	103		1:20	Acc.	4,668,577	1.43	6,676,065	64.8162	2.05
1986	204	94	11	23	Acc.	4,905,102	1.39	6,818,092	72.5329	2.17
1987	198	98		2:39	Acc.	5,494,592	1.33	7,307,807	74.5695	2.02
1988	180	108		1:34	Acc.	5,378,103	1.27	6,830,191	63.2425	1.67
1989	189	121	1:18		Cal.	6,271,667	1.17	7,337,850	60.6434	1.56
1990	200	95	2:46		Cal.	6,392,818	1.07	6,840,315	72.0033	2.11
1991	212	110	2:39		Cal.	7,409,829	1.00	7,409,829	67.3621	1.93
1992	202	108		1:32	Cal.	8,008,143	0.96	7,687,817	71.1835	1.87
1993	200	93	1:42		Cal.	8,188,269	0.94	7,696,973	82.7631	2.15
1994	203	87	1:14		Cal.	8,126,373	0.93	7,557,527	86.8681	2.33
1995	203	79	1:7		Cal.	8,575,912	0.90	7,718,321	97.7003	2.57
1996	183	76	0:0		Cal.	8,581,614	0.87	7,466,004	98.2369	2.41

KEY

- Acc. Performance figures as stated in Annual report and accounts for relevant year.
- Cal. Performance figures computed from published calendar [see methodology].
- Oliver See Oliver (1987).

Note [a] Mediumscale and smallscale performances by Opera For All and Opera Go Round as well as educational workshops are recorded where data is available and as a guide only. Since these activities are treated on a contribution basis only within the annual accounts for Scottish Opera, and represent on average no more than 2% of total turnover, inclusion of these performances in the taxonomy would create significant distortion.
Data format [productions : performances] [+ workshops etc]

Appendix 7-2 : Financial data - Scottish Opera

FINANCIAL DATA : SCOTTISH OPERA													
Source : Annual reports and accounts (1963-1996)													
Note 1	10 mnths	7 mnths	12 mnths	12 mnths	8 mnths	9 mnths	12 mnths						
YEAR	1963a	1963b	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
INCOME [CURRENT PRICES]													
Box office receipts	3588	7318	11736	17532	25146	0	32993	Note 2					
Other income (broadcasts)	75	433	659	410	1766	168	1770						
Other income (FOH & sundry)	584	619	987	1331	848	589	1690						
Other income (let of premises & equipment)	0	0	0	94	826	312	114						
Other income (costumes hire)	0	0	0	0	0	9	52						
Other grants, donations & sponsorship (private)	1660	8765	8352	7658	7329	56	1570						
Business Sponsorship Incentive Scheme (BSIS)	0	0	0	0	0	0	0						
Group turnover [a]	0	0	0	0	0	0	0						
Income from quoted investments (subsidiaries)	0	0	0	0	0	0	0						
Net funds raised for Theatre Royal project	0	0	0	0	0	0	0						
Scottish Opera Theatre Royal Ltd Income	0	0	0	0	0	0	0						
Scottish Opera Theatre Trust Ltd Income	0	0	0	0	0	0	0						
Less intercompany trading	0	0	0	0	0	0	0						
Interest received [b]	1	23	46	97	4	0	0						
Insurance rebate from previous years	0	0	0	0	0	0	0						
Admin expenses charged to Edinburgh International Fest.	0	0	0	0	0	0	1000						
Reserves released in year (to income/expenditure a/c)	0	0	0	0	0	0	0						
Contribution by 'Opera For All' + 'Opera Go Round'	0	0	0	0	0	0	800						
Exceptional items & gain on sale of investments	0	0	0	0	0	0	0						
Total income - private sources	**5908**	**17158**	**21780**	**27122**	**35919**	**1134**	**39989**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
ACGB+SAC+LA grants [Note 3]	1649	0	0	0	0	0	0						
ACGB general grant	0	4500	9000	15000	40000	0	0						
ACGB / SAC supplementary & special grants	0	0	0	0	0	8000	3000						
SAC general grant	0	0	0	0	0	8000	75000						
SAC touring + enhancement funding	0	0	0	0	0	0	0						
ACE English touring grant	0	0	0	0	0	0	0						
LA grants	0	1000	3250	4000	7350	0	12050						
Management fee 'Opera for All'	0	0	0	0	0	2700	3500						
Other grants & donations (public)	0	0	0	0	0	0	0						
Scottish Office deficit funding	0	0	0	0	0	0	0						
Total Income - public sources	**1649**	**5500**	**12250**	**19000**	**47350**	**18700**	**93550**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
TURNOVER [current]	**7,557**	**22,658**	**34,030**	**46,122**	**83,269**	**19,834**	**133,539**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
Public income factor	22%	24%	36%	41%	57%	94%	70%	not known	not known	not known	not known	not known	not known

Notes : see end of table

Appendix 7-2 : Financial data - Scottish Opera (continued)

FINANCIAL DATA : SCOTTISH OPERA														
Source : Annual reports and accounts (1963-1996)														
Note 1 YEAR	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
INCOME [CURRENT PRICES]														
Box office receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other income (broadcasts)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other income (FOH & sundry)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other income (let of premises & equipment)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other income (costumes hire)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other grants, donations & sponsorship (private)	0	0	0	0	0	0	148516	55856	153808	167818	219592	411002	298063	294069
Business Sponsorship Incentive Scheme (BSIS)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Group turnover [a]	297966	438095	585618	597217	653540	936864	983946	1045812	1099726	1219212	1439900	1370618	1911614	1774390
Income from quoted investments (subsidiaries)	0	44	169	267	15367	0	0	0	0	0	0	0	0	0
Net funds raised for Theatre Royal project	181693	111530	139569	102807	112764	74555	91358	44788	43774	36446	8861	8071	7738	7086
Scottish Opera Theatre Royal Ltd Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scottish Opera Theatre Trust Ltd Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less intercompany trading	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest received [b]	0	0	0	0	0	0	0	0	329	2121	58779	31463	23589	7301
Insurance rebate from previous years	0	0	0	0	13894	0	0	0	0	0	0	0	0	0
Admin expenses charged to Edinburgh International Fest.	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Reserves released in year (to income/expenditure a/c)	0	0	0	0	0	0	0	0	0	31475	9910	61526	10379	2723
Contribution by 'Opera For All' + 'Opera Go Round'	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional items & gain on sale of investments	0	0	0	0	0	0	0	0	0	0	0	0	0	18708
Total income - private sources	**479659**	**549669**	**725356**	**700291**	**795565**	**1011419**	**1223820**	**1146456**	**1297637**	**1457072**	**1737042**	**1882680**	**2251383**	**2104277**
ACGB+SAC+LA grants [Note 3]	664130	1013404	1503466	1601757	1750257	2092772	2303514	2463694	2597349	2501925	2931535	3022422	3243209	3273826
ACGB general grant	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ACGB / SAC supplementary & special grants	0	0	0	0	0	0	0	0	0	917851	0	0	0	0
SAC general grant	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SAC touring + enhancement funding	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ACE English touring grant	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LA grants	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Management fee 'Opera for All'	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other grants & donations (public)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scottish Office deficit funding	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total income - public sources	**664130**	**1013404**	**1503466**	**1601757**	**1750257**	**2092772**	**2303514**	**2463694**	**2597349**	**3419776**	**2931535**	**3022422**	**3243209**	**3273826**
TURNOVER [current]	**1,143,789**	**1,563,073**	**2,228,822**	**2,302,048**	**2,545,822**	**3,104,191**	**3,527,334**	**3,610,150**	**3,894,986**	**4,876,848**	**4,668,577**	**4,905,102**	**5,494,592**	**5,378,103**
Public income factor	58%	65%	67%	70%	69%	67%	65%	68%	67%	70%	63%	62%	59%	61%

FINANCIAL DATA : SCOTTISH OPERA								
Source : Annual reports and accounts (1963-1996)								
Note 1 YEAR	1989	1990	1991	1992	1993	1994	1995	1996
INCOME [CURRENT PRICES]								
Box office receipts	0	0	0	0	1643597	1319111	1549015	1399909
Other income (broadcasts)	0	0	0	0	0	0	0	0
Other income (FOH & sundry)	0	0	0	0	0	0	0	0
Other income (let of premises & equipment)	0	0	0	0	0	0	0	0
Other income (costumes hire)	0	0	0	0	0	0	0	0
Other grants, donations & sponsorship (private)	341868	455221	560588	750792	748630	981217	916645	1086551
Business Sponsorship Incentive Scheme (BSIS)	0	0	0	0	10500	39750	33677	20000
Group turnover [a]	2426676	2376242	1779448	2090208	0	0	0	0
Income from quoted investments (subsidiaries)	0	0	0	0	0	0	0	0
Net funds raised for Theatre Royal project	2657	8338	6813	0	0	0	0	0
Scottish Opera Theatre Royal Ltd Income	0	0	0	0	616169	659672	977991	785904
Scottish Opera Theatre Trust Ltd Income	0	0	0	0	3314	3816	10482	24112
Less intercompany trading	0	0	0	0	-421436	-410459	-414592	-578014
Interest received [b]	26686	4402	0	2248	20018	8643	1750	2460
Insurance rebate from previous years	0	0	0	0	0	0	0	0
Admin expenses charged to Edinburgh International Fest.	0	0	0	0	0	0	0	0
Reserves released in year (to income/expenditure a/c)	0	0	0	0	0	0	0	0
Contribution by 'Opera For All' + 'Opera Go Round'	0	0	0	0	330228	294222	179569	177737
Exceptional items & gain on sale of investments	37950	0	0	0	0	0	0	0
Total income - private sources	**2835837**	**2844203**	**2346849**	**2843248**	**2951020**	**2895972**	**3254537**	**2918859**
ACGB+SAC+LA grants [Note 3]	3435830	3548615	5062980	4664895	0	0	0	0
ACGB general grant	0	0	0	0	0	0	0	0
ACGB / SAC supplementary & special grants	0	0	0	0	22000	30000	0	0
SAC general grant	0	0	0	0	4360000	4460000	4560000	4670290
SAC touring + enhancement funding	0	0	0	0	125000	135000	35000	220000
ACE English touring grant	0	0	0	0	300000	300000	359960	300000
LA grants	0	0	0	0	305249	305401	366415	357665
Management fee 'Opera for All'	0	0	0	0	0	0	0	0
Other grants & donations (public)	0	0	0	0	125000	0	0	115000
Scottish Office deficit funding	0	0	0	500000	0	0	0	0
Total income - public sources	**3435830**	**3548615**	**5062980**	**5164895**	**5237249**	**5230401**	**5321375**	**5662955**
TURNOVER [current]	**6,271,667**	**6,392,818**	**7,409,829**	**8,008,143**	**8,188,269**	**8,126,373**	**8,575,912**	**8,581,614**
Public income factor	55%	56%	68%	64%	64%	64%	62%	66%

Appendix 7-2 : Financial data - Scottish Opera (continued)

Note 1 : From its inaugural season, beginning June 1962, SO operated on a part-time basis until 1964. Hence the first two financial periods are <12 months duration (1963a = 17-04-62 [date of incorporation] to 04-02-63; 1963b = 04-02-63 to 30-09-63). The two short financial periods ending 1966 and 1967 represent a gradual adjustment of SO's financial reporting period carried out at the request of the Arts Council. This was done in order to bring the accounting periods of the two organisations into line (for year endings 31 March).

Note 2 : Due to the adoption of minimum reporting standards for the years 1969-74, no income and expenditure sheet data is available for this period.

Note 3 : From 1975-92 grant figures (main public sources) are reported in the accounts in aggregate only.

[a] Group comprises : Scottish Opera Ltd (parent), Scottish Opera Theatre Royal Ltd (owner and operator of Theatre Royal, SO's principal venue), and Scottish Opera Theatre Trust Ltd.

[b] Not strictly a private source of income since interest can be earned on public subsidy also.

Appendix 7-3 : Taxonomy plot - Royal Opera House, Covent Garden

TAXONOMY PLOT DATA : ROYAL OPERA HOUSE, COVENT GARDEN

Source : Annual report and accounts (1973-1996)

YEAR	EMPLOYEES [AVG FTE] ROH group	SWRB / BRB component	SWRB / BRB corrected component	Estimated SWRB / BRB component	CORRECTED TOTAL	PERFORMANCES RO+RB (excl. tours)	RO only	Data source	TURNOVER [CURRENT]	NORMALISATION DEFLATOR	TURNOVER [CONSTANT]	PLOT DATA TO/PERF [CONSTANT]	EMP/PERF [AVG FTE]
	Group = RO+RB+SWRB/BRB	SWRB+Orchestra (to 1989) BRB+Orchestra (from 1990)	Corrected for hidden overhead element: estimated on BRB 1991 level [13/152 = 1.09]	Based on ratio of SWRB employees inc. overhead to group total [142/1042 = 0.136]	RO+RB-SWRB/BRB	(UK)	(UK)	Refer to key	Corrected to remove SWRB/BRB and overseas activity			£000	
1970										7.30	0		
1971										6.67	0		
1972										6.23	0		
1973	932			127	805	264	167	Cal.	2,862,771	5.70	16,317,795	61.8098	3.05
1974	946			128	818	261	176	Cal.	3,432,658	4.93	16,923,004	64.8391	3.13
1975	964			131	833	250	153	Cal.	4,443,009	3.97	17,638,746	70.5550	3.33
1976	957			130	827	251	172	Cal.	5,241,264	3.40	17,820,298	70.9972	3.29
1977						245	130	Cal.	6,501,067	2.93	19,048,126		
1978	993			135	858	248	146	Cal.	7,367,777	2.70	19,892,998	80.2137	3.46
1979	1023			139	884	234	132	Cal.	8,469,609	2.39	20,242,366	86.5058	3.78
1980									10,715,310	2.03	21,752,079		
1981	1054			143	911	236	141	Cal.	12,129,922	1.81	21,955,159	93.0303	3.86
1982	1051			143	908	238	135	Cal.	15,218,825	1.66	25,263,250	106.1481	3.82
1983	1043			142	901	236	143	Cal.	15,381,166	1.56	23,994,619	101.6721	3.82
1984	1042	130	142		900	228	117	Cal.	18,756,620	1.51	28,322,496	124.2215	3.95
1985	1045	132	144		901	259	144	Cal.	18,925,700	1.43	27,063,751	104.4932	3.48
1986	1051	133	145		906	268	121	Cal.	21,241,550	1.39	29,525,755	110.1707	3.38
1987	1044	134	146		898	235	135	Cal.	23,313,350	1.33	31,006,756	131.9436	3.82
1988	1053	133	145		908	256	150	Cal.	26,020,150	1.27	33,045,591	129.0843	3.55
1989	1073	136	148		925	257	142	Cal.	29,937,450	1.17	35,026,817	136.2911	3.60
1990	1112	139	152		960	249	129	Cal.	34,184,970	1.07	36,577,918	146.8993	3.86
1991	1148	152			996	233	135	Cal.	37,135,000	1.00	37,135,000	159.3777	4.27
1992	1128	158			970		145	Cal.	41,371,000	0.96	39,716,160		
1993	1096	161			935	271	153	Cal.	44,317,000	0.94	41,657,980	153.7195	3.45
1994	1092	157			935	269	162	Cal.	43,109,000	0.93	40,091,370	149.0386	3.48
1995	1071	159			912	248	142	Cal.	47,344,000	0.90	42,609,600	171.8129	3.68
1996	1000	159			841	242	132	Cal.	56,094,000	0.87	48,801,780	201.6602	3.48

KEY Acc. Performance figures as stated in Annual report and accounts for relevant year

Cal. Performance figures computed from published calendar [see methodology].

Appendix 7-4 : Financial data - Royal Opera House, Covent Garden

FINANCIAL DATA : ROYAL OPERA HOUSE, COVENT GARDEN

Source : Annual reports and accounts (1973-1996)

figures in Italics = estimate

YEAR	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
INCOME [CURRENT PRICES]										
House receipts - opera company	822470	1107378	1169836	1337162	1627266	1779493	2338677	2511655	3202713	3635466
House receipts - ballet company	577990	578374	667470	734035	893519	1161984	1163895	1659554	2497892	2305983
House receipts - visiting company	0	12658	72899	162134	77037	0	0	680730	0	280020
House receipts - SWRB / BRB	0	0	0	0	0	0	0	0	0	0
Less VAT on house receipts	0	-132837	-152791	-165432	-192431	-217887	-259458	-532640	-743557	-811496
UK touring receipts - ballet (net)	378048	204935	196935	378620	428503	500795	591850	633845	580882	882242
O/seas contribution towards overheads	0	48686	20409	0	0	0	51563	0	0	31534
Other income (private) (net) e.g. FOH	162506	147715	132985	183009	201644	244448	298601	538795	666910	770805
Other grants & donations (private) [see Note 1]	40290	87232	222733	197732	195954	299433	271590	507208	655229	1011679
Interest received [d]	0	0	0	0	0	0	0	0	0	0
Release of reserves & other post P/L events	0	0	4887	0	0	0	0	0	0	0
Total income - private sources	**1981304**	**2054141**	**2335363**	**2827260**	**3231492**	**3768266**	**4456718**	**5999147**	**6860069**	**8106233**
ACGB general grant	1750000	2020000	2300000	3200000	4150000	4500000	5310470	6250000	6905000	8020000
ACGB grant & guarantee (ballet)	27000	34000	88500	44000	46799	51631	61950	302675	626220	1324794
ACGB supplementary & special grants	0	25000	451500	150000	210000	350000	164530	100000	0	0
ACGB grant adjustments	0	0	0	0	0	0	0	0	0	0
Other grants & donations (public) [see Note 1]	0	0	0	109000	43832	25552	27326	*25000*	*25000*	*0*
Total income - public sources	**1777000**	**2079000**	**2840000**	**3503000**	**4450631**	**4927183**	**5564276**	**6677675**	**7556220**	**9344794**
TURNOVER [current]	**3,758,304**	**4,133,141**	**5,175,363**	**6,330,260**	**7,682,123**	**8,695,449**	**10,020,994**	**12,676,822**	**14,416,289**	**17,451,027**
Public income factor [ROH Group]	47%	50%	55%	55%	58%	57%	56%	53%	52%	54%

For corrected turnover: see table which follows in this appendix (7-4). Notes: see end of table

Appendix 7-4 : Financial data - Royal Opera House, Covent Garden (continued)

FINANCIAL DATA : ROYAL OPERA HOUSE, COVENT GARDEN										
Source : Annual reports and accounts (1973-1996)										
figures in Italics = estimate										
YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
INCOME [CURRENT PRICES]										
House receipts - opera company	4114287	4527115	5231000	5495000	5268000	8067000	7269000	9681000	11060000	13207000
House receipts - ballet company	2260320	2545506	3204000	2608000	2961000	3096000	3056000	4292000	5159000	4506000
House receipts - visiting company	171215	387383	0	0	1542000	706000	1100000	379000	254000	0
House receipts - SWRB / BRB	0	0	0	299000	354000	0	285000	0	470000	394000
Less VAT on house receipts	-853803	-973044	-1100000	-1096000	-1327000	-1548000	-1555000	-1887000	-2216000	-2364000
UK touring receipts - ballet (net)	977662	896006	1037000	936000	1185000	1013000	1058000	1258000	1379000	1615000
O/seas contribution towards overheads	0	711963	1031000	885000	2325000	722000	838000	499000	400000	631000
Other income (private) (net) e.g. FOH	875101	1874427	1723000	1622000	2414000	2316000	3090000	3620000	3971000	4463000
Other grants & donations (private) [see Note 1]	962088	1531399	1773000	1904000	2297000	2966000	5538000	6484000	6518000	8119000
Interest received [d]	0	0	237000	212000	248000	262000	386000	595000	737000	383000
Release of reserves & other post P/L events	0	0	0	0	0	0	0	0	0	0
Total income - private sources	**8506870**	**11500755**	**13136000**	**12865000**	**17267000**	**17600000**	**21065000**	**24921000**	**27732000**	**30954000**
ACGB general grant	8550000	9500000	11350000	12593000	13097000	13227000	13991000	14382000	16397000	17800000
ACGB grant & guarantee (ballet)	1379682	803659	100000	882000	0	0	0	0	0	0
ACGB supplementary & special grants	450000	1244226	0	0	70000	76000	10000	182000	0	0
ACGB grant adjustments	0	0	-845000	0	0	0	0	0	0	0
Other grants & donations (public) [see Note 1]	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total income - public sources	**10379682**	**11547885**	**10605000**	**13475000**	**13167000**	**13303000**	**14001000**	**14564000**	**16397000**	**17800000**
TURNOVER [current]	**18,886,552**	**23,048,640**	**23,741,000**	**26,340,000**	**30,434,000**	**30,903,000**	**35,066,000**	**39,485,000**	**44,129,000**	**48,754,000**
Public income factor [ROH Group]	55%	50%	45%	51%	43%	43%	40%	37%	37%	37%

For corrected turnover: see table which follows in this appendix (7-4). Notes: see end of table

FINANCIAL DATA : ROYAL OPERA HOUSE, COVENT GARDEN				
Source : Annual reports and accounts (1973-1996)				
figures in Italics = estimate				
YEAR	1993	1994	1995	1996
INCOME [CURRENT PRICES]				
House receipts - opera company	16750000	13938000	16718000	15837000
House receipts - ballet company	5726000	5018000	5182000	5181000
House receipts - visiting company	0	662000	176000	1180000
House receipts - SWRB / BRB	0	730000	150000	401000
Less VAT on house receipts	-3368000	-3031000	-3310000	-3366000
UK touring receipts - ballet (net)	2180000	1459000	2249000	1661000
O/seas contribution towards overheads	2751000	1746000	1555000	2992000
Other income (private) (net) e.g. FOH	4355000	4722000	4964000	4661000
Other grants & donations (private) [see Note 1]	7169000	8173000	10257000	18245000
Interest received [d]	307000	234000	200000	231000
Release of reserves & other post P/L events	0	0	0	0
Total income - private sources	**35870000**	**33651000**	**38141000**	**47023000**
ACGB general grant	18952000	19546000	19571000	20026000
ACGB grant & guarantee (ballet)	0	0	0	0
ACGB supplementary & special grants	0	0	0	0
ACGB grant adjustments	0	0	0	0
Other grants & donations (public) [see Note 1]	*0*	*0*	*0*	*0*
Total income - public sources	**18952000**	**19546000**	**19571000**	**20026000**
TURNOVER [current]	**54,822,000**	**53,197,000**	**57,712,000**	**67,049,000**
Public income factor [ROH Group]	35%	37%	34%	30%

For corrected turnover: see table which follows in this appendix (7-4). Notes: see end of table

Appendix 7-4 : Financial data - Royal Opera House, Covent Garden (continued)

YEAR	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
TURNOVER [current] from table above	3,758,304	4,133,141	5,175,363	6,330,260	7,682,123	8,695,449	10,020,994	12,676,822	14,416,289	17,451,027
CORRECTED INCOME:										
LESS SWRB / BRB AND OVERSEAS ACTIVITY										
ACGB general grant : BRB [as stated]	0	0	0	0	0	0	0	0	0	0
ACGB general grant : SWRB [estimate - see Notes 2 & 3]	-434686	-362025	-416294	-479257	-583817	-652424	-749256	-919805	-1207737	-1490290
ACGB Birmingham funding	0	0	0	0	0	0	0	0	0	0
ACGB special grant: Sadler's Wells Theatre charges	0	0	0	0	0	0	0	0	0	0
House receipts : SWRB / BRB component [a]	-57799	-57837	-66747	-73404	-89352	-116198	-116390	-165955	-249789	-230598
ACGB overseas grant (total)	0	0	0	0	0	0	0	0	0	0
Overseas touring receipts (net contribution total) [b]	0	-48686	-20409	0	0	0	-51563	0	0	0
UK touring receipts (net total)	-378048	-204935	-196935	-378620	-428505	-500795	-591850	-633845	-580812	0
UK touring receipts : BRB	0	0	0	- .0	0	0	0	0	0	0
UK touring receipts : RB	0	0	0	0	0	0	0	0	0	0
Other grants & donations: UK touring component [c]	0	0	-21519	-57800	-41000	-38000	-34794	-98347	-178029	-385408
Other grants & donations: Overseas touring component [c]	-25000	-27000	-10450	-99915	-38382	-20255	-7532	-143560	-70000	-125906
CORRECTED TURNOVER [current]	2,862,771	3,432,658	4,443,009	5,241,264	6,501,067	7,367,777	8,469,609	10,715,310	12,129,922	15,218,825
Correction factor (%)	0.24	0.17	0.14	0.17	0.15	0.15	0.15	0.15	0.16	0.13

Notes: see end of table

Appendix 7-4 : Financial data - Royal Opera House, Covent Garden (continued)

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
TURNOVER [current] from table above	18,886,552	23,048,640	23,741,000	26,340,000	30,434,000	30,903,000	35,066,000	39,485,000	44,129,000	48,754,000
CORRECTED INCOME:										
LESS SWRB / BRB AND OVERSEAS ACTIVITY										
ACGB general grant : BRB [as stated]	0	0	0	0	0	0	0	-2710000	-3368000	-3637000
ACGB general grant : SWRB [estimate - see Notes 2 & 3]	-1688357	-1732500	-1857900	-2034450	-2509650	-2093850	-2222550	0	0	0
ACGB Birmingham funding	0	0	0	0	0	0	0	0	-600000	-150000
ACGB special grant: Sadler's Wells Theatre charges	0	0	0	-70000	-70000	-76000	-10000	-22030	0	0
House receipts : SWRB / BRB component [a]	-226032	-254551	-320400	-299000	-354000	-366000	-285000	0	-470000	-394000
ACGB overseas grant (total)	0	0	0	0	0	0	0	-500000	-500000	-500000
Overseas touring receipts (net contribution total) [b]	-203335	-711963	-1031000	-885000	-2325000	-722000	-838000	-499000	-400000	-631000
UK touring receipts (net total)	-977662	-896006	-1037000	-936000	-1185000	-1013000	-1058000	-1258000	-1379000	-1615000
UK touring receipts : BRB	0	0	0	0	0	0	0	0	0	0
UK touring receipts : RB	0	0	0	0	0	0	0	0	0	0
Other grants & donations: UK touring component [c]	-230000	-275000	-256000	-266000	-393000	-214000	-209000	-281000	-277000	-296000
Other grants & donations: Overseas touring component [c]	-180000	-422000	-313000	-608000	-284000	-398000	-506000	-30000	0	-160000
CORRECTED TURNOVER [current]	15,381,166	18,756,620	18,925,700	21,241,550	23,313,350	26,020,150	29,937,450	34,184,970	37,135,000	41,371,000
Correction factor (%)	0.19	0.19	0.20	0.19	0.23	0.16	0.15	0.13	0.16	0.15

Notes: see end of table

Appendix 7-4 : Financial data - Royal Opera House, Covent Garden (continued)

YEAR	1993	1994	1995	1996
TURNOVER [current] from table above	**54,822,000**	**53,197,000**	**57,712,000**	**67,049,000**
CORRECTED INCOME:				
LESS SWRB / BRB AND OVERSEAS ACTIVITY				
ACGB general grant : BRB [as stated]	-4479000	-4591000	-4591000	-5202000
ACGB general grant : SWRB [estimate - see Notes 2 & 3]	0	0	0	0
ACGB Birmingham funding	-250000	-356000	-356000	0
ACGB special grant: Sadler's Wells Theatre charges	0	0	0	0
House receipts : SWRB / BRB component [a]	0	-730000	-150000	-401000
ACGB overseas grant (total)	-500000	-500000	-500000	0
Overseas touring receipts (net contribution total) [b]	-2751000	-1746000	-1555000	-2992000
UK touring receipts (net total)	-2180000	0	0	0
UK touring receipts : BRB	0	-1656000	-2549000	-1844000
UK touring receipts : RB	0	-59000	-94000	-108000
Other grants & donations: UK touring component [c]	-230000	-297000	-276000	-14000
Other grants & donations: Overseas touring component [c]	-115000	-153000	-297000	-394000
CORRECTED TURNOVER [current]	**44,317,000**	**43,109,000**	**47,344,000**	**56,094,000**
Correction factor (%)	0.19	0.19	0.18	0.16

Notes: see end of table

Appendix 7-4 : Financial data - Royal Opera House, Covent Garden (continued)

Note 1 : Other grants and donations represent both private and public sources of income. Before 1980 it is possible to identify the individual private and public components of this item. From 1980 onwards, amounts are presented in aggregate in the accounts, making it impossible to quantify the year on year split. In the absence of a reliable method of estimating the split, total 'other grants and donations' have been assigned to private sources. In this analysis, total private sources of income are therefore overstated by an unknown factor each year.

Note 2 : Years 1984-89 estimated at 165% of stated SWRB production costs. Based on ratio of grant (ACGB general grant : BRB component) to BRB production costs.
During the 1990-91 transition years the grant to production costs ratio computes at 165% (average) before settling to around 135% for the new BRB operation. The 1990-91 years can be taken as indicative of the true production costs of the SWRB operation since costs before this point may be understated.

Note 3 : Years 1973-83 estimated according to Note 1 above using estimated SWRB production costs.
These costs are not stated prior to 1984 and have been estimated using an historical average at 37% of total ballet production costs.

[a] Estimated on basis of historical average before 1984.

[b] Net contribution is negative in some years

[c] Estimates for years 1973, 1974 and 1983 computed using historical rolling average to smooth year on year variation.
Individual estimates arrived at by extrapolation from resultant trendline.

[d] Not strictly a private source of income since interest can be earned on public subsidy also.

Appendix 7-5 : Taxonomy plot data - English National Opera

TAXONOMY PLOT : ENGLISH NATIONAL OPERA									
Source : Annual report and accounts (1972-1997)						NORMALISATION		PLOT DATA	
YEAR	EMPLOYEES [AVG FTE]	PERFORMANCES Mainscale	North component	Data source	TURNOVER [CURRENT]	DEFLATOR	TURNOVER [CONSTANT]	TO/PERF [CONSTANT]	EMP/PERF [AVG FTE]
		Note 1	Note 2	Refer to key	£		£	£000	
1970						7.30			
1971	Not reported				1,449,120	6.67	9,665,630		
1972	Not reported				1,604,946	6.23	9,998,814		
1973	Not reported				1,859,706	5.70	10,600,324		
1974	Not reported				1,957,789	4.93	9,651,900		
1975	Not reported				2,510,086	3.97	9,965,041		
1976	520	259	(82)	Cal.	3,179,250	3.40	10,809,450	41.7353	2.01
1977	530	263	(81)	Cal.	3,908,105	2.93	11,450,748	43.5390	2.02
1978	535	227	(23)	Cal.	4,551,771	2.70	12,289,782	54.1400	2.36
1979	700	301	(88)	Cal.		2.39			
1980	720	312	(103)	Cal.	7,948,484	2.03	16,135,423	51.7161	2.31
1981	718				9,025,347	1.81	16,335,878		
1982	570	187	0	Cal.	8,710,121	1.66	14,458,801	77.3198	3.05
1983	593	194	0	Cal.	8,990,656	1.56	14,025,423	72.2960	3.06
1984	602	170	0	Cal.	10,584,109	1.51	15,982,005	94.0118	3.54
1985	609	164	0	Acc.	12,352,607	1.43	17,664,228	107.7087	3.71
1986	610	202	0	Acc.	12,735,401	1.39	17,702,207	87.6347	3.02
1987	615	208	0	Acc.	13,246,451	1.33	17,617,780	84.7009	2.96
1988	601	210	0	Acc.	14,454,431	1.27	18,357,127	87.4149	2.86
1989	586	209	0	Acc.	15,940,130	1.17	18,649,952	89.2342	2.80
1990	599	213	0	Acc.	17,671,861	1.07	18,908,891	88.7741	2.81
1991	588	197	0	Acc.	19,483,000	1.00	19,483,000	98.8985	2.98
1992	586	219	0	Acc.	21,339,000	0.96	20,485,440	93.5408	2.68
1993	577	215	0	Acc.	22,013,000	0.94	20,692,220	96.2429	2.68
1994	584	214	0	Acc.	21,472,000	0.93	19,968,960	93.3129	2.73
1995	558	175	0	Cal.	21,951,000	0.90	19,755,900	112.8909	3.19
1996	564	189	0	Cal.	23,869,000	0.87	20,766,030	109.8732	2.98
1997	553				22,028,000	0.84	18,503,520		

KEY
- Acc. — Performance figures as stated in Annual report and accounts for relevant year
- Cal. — Performance figures computed from published calendar [see methodology].
- Note 1 — Data includes all mainscale activity at the North division (Leeds) to 1980. After 1980 the North division is disaggregated and becomes Opera North, an independent company.
- Note 2 — These figures represent the contribution in terms of mainscale performances by the North division at Leed The figures are included in the taxonomy plot data as per note 1.

Appendix 7-6 : Financial data - English National Opera

FINANCIAL DATA : ENGLISH NATIONAL OPERA

Source : Annual reports and accounts (1971-1997)

figures in italics = estimate

YEAR	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
INCOME [CURRENT PRICES]										
London receipts	432114	417527	499077	505654	471838	743697	851937	1003235	0	0
Tour receipts	24885	86355	111748	149170	141347	151912	189630	142809	0	0
Theatre let receipts / visiting companies	17483	72416	70812	110729	132820	121623	122726	157692	0	0
Catering & FOH surplus (net)	12082	13563	23748	0	0	0	3591	0	0	0
Sundry receipts	7106	5385	10473	5978	10131	14957	56813	31246	0	0
Less VAT on above items	0	0	0	-66609	-53730	-73488	-86514	-85129	0	0
Deferred income (box office)	0	0	0	0	0	0	0	0	0	0
O/seas tour fundraising & exceptional income [a]	0	0	0	0	0	0	0	0	0	0
Turnover - London [Note 1]	0	0	0	0	0	0	0	0	0	6234373
Turnover - North [Note 1]	0	0	0	0	0	0	0	0	0	1704624
Sponsorship & donations	0	0	0	0	11500	2330	51999	54768	0	0
Interest received [b]	0	0	5448	23127	20012	6092	0	0	0	9409
City of Westminster ticket subsidy [c]	0	0	0	0	0	0	0	0	0	0
Shared production costs recouped	0	0	0	0	0	0	36400	0	0	0
Sale of assets (to income/expenditure account)	0	0	0	0	0	0	0	0	0	78
Insurance receipts and rebates	0	0	0	0	0	0	0	0	0	0
Transfers from reserves to income/expenditure a/c	10000	0	0	0	0	0	0	0	0	0
Total income - private sources	503670	595246	721306	728049	733918	967123	1226582	1304621	not known	not known
ACGB general grant	815000	865000	920000	960000	1311000	1798000	2000000	2200000	0	0
ACGB guarantee	0	0	15000	20000	150068	24427	179523	511050	0	0
ACGB supplementary & special grants	10000	0	0	0	50000	0	0	0	0	0
ACE feasibility study grant [d]	0	0	0	0	0	0	0	0	0	0
ACE commissioning grant	0	0	0	0	0	0	0	0	0	0
GLC grant (Greater London Council)	120000	140000	190000	245000	260000	375000	480000	520000	0	0
GLC supplementary grant	0	0	0	0	0	0	0	0	0	0
City of Westminster grant	0	0	0	0	0	0	0	0	0	0
City of Westminster ticket subsidy [c]	0	0	0	0	0	0	0	0	0	0
O/seas grants & guarantees [a]	0	0	0	0	0	0	0	0	0	0
LA grants (Local Authorities)	450	4700	13400	4740	5100	14700	22000	16100	0	0
Total income - public sources	945450	1009700	1138400	1229740	1776168	2212127	2681523	3247150	not known	not known
TURNOVER [current]	1,449,120	1,604,946	1,859,706	1,957,789	2,510,086	3,179,250	3,908,105	4,551,771	not known	7,948,484
Public income factor	65%	63%	61%	63%	71%	70%	69%	71%	not known	not known

Notes: see end of table

Appendix 7-6 : Financial data - English National Opera (continued)

FINANCIAL DATA : ENGLISH NATIONAL OPERA										
Source : Annual reports and accounts (1971-1997)										
figures in italics = estimate										
YEAR	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
INCOME [CURRENT PRICES]										
London receipts	0	2245387	2453293	2547403	2607404	3702463	3965070	4580026	5399718	5974794
Tour receipts	0	0	95146	106332	0	0	0	0	0	0
Theatre let receipts / visiting companies	0	120573	219967	219550	267374	180974	124915	205135	250599	332934
Catering & FOH surplus (net)	0	0	0	634117	739325	1086192	1071617	1265589	1389513	1730433
Sundry receipts	0	93916	116896	38721	64201	61057	109528	101598	118778	218835
Less VAT on above items	0	-292877	-319995	-332270	-340047	-482934	-517183	-597395	-704311	-779321
Deferred income (box office)	0	0	0	0	0	0	0	0	0	0
O/seas tour fundraising & exceptional income [a]	0	0	0	0	1788945	469209	0	0	0	107036
Turnover - London [Note 1]	6926719	0	0	0	0	0	0	0	0	0
Turnover - North [Note 1]	1956397	0	0	0	0	0	0	0	0	0
Sponsorship & donations	0	238129	242754	344475	273417	549485	729757	816028	1008690	1110864
Interest received [b]	42231	73593	61000	64380	13738	34160	18497	83995	157246	237861
City of Westminster ticket subsidy [c]	0	0	0	0	0	0	0	0	-84417	*-52656*
Shared production costs recouped	0	0	0	0	0	0	0	0	0	0
Sale of assets (to income/expenditure account)	0	1400	0	0	0	0	0	0	3697	0
Insurance receipts and rebates	0	0	0	0	0	29295	0	0	0	0
Transfers from reserves to income/expenditure a/c	0	0	0	0	0	0	43700	44300	65500	278100
Total income - private sources	not known	2480121	2869061	3622708	5414357	5629901	5545901	6499276	7605013	9158880
ACGB general grant	0	4500000	4550000	4900000	5418250	6034500	6576000	6750000	6917000	7055425
ACGB guarantee	0	0	571595	868195	500000	0	0	0	0	0
ACGB supplementary & special grants	100000	880000	0	218206	0	0	0	0	83000	83000
ACE feasibility study grant [d]	0	0	0	0	0	0	0	0	0	0
ACE commissioning grant	0	0	0	0	0	0	0	0	0	0
GLC grant (Greater London Council)	0	850000	930000	975000	1020000	1071000	0	0	0	0
GLC supplementary grant	0	0	40000	0	0	0	0	0	0	0
City of Westminster grant	0	0	0	0	0	0	1124550	1205155	1250700	1321900
City of Westminster ticket subsidy [c]	0	0	0	0	0	0	0	0	84417	*52656*
O/seas grants & guarantees [a]	0	0	0	0	0	0	0	0	0	0
LA grants (Local Authorities)	0		30000	0	0	0	0	0	0	0
Total income - public sources	not known	6230000	6121595	6961401	6938250	7105500	7700550	7955155	8335117	8512981
TURNOVER [current]	9,025,347	8,710,121	8,990,656	10,584,109	12,352,607	12,735,401	13,246,451	14,454,431	15,940,130	17,671,861
Public income factor	not known	72%	68%	66%	56%	56%	58%	55%	52%	48%

Notes: see end of table

Appendix 7-6 : Financial data - English National Opera (continued)

FINANCIAL DATA : ENGLISH NATIONAL OPERA

Source : Annual reports and accounts (1971-1997)

figures in italics = estimate

YEAR	1991	1992	1993	1994	1995	1996	1997
INCOME [CURRENT PRICES]							
London receipts	5775000	6180000	5612000	5657000	5814000	6694000	6325000
Tour receipts	0	0	0	0	0	0	0
Theatre let receipts / visiting companies	510000	584000	622000	367000	550000	712000	698000
Catering & FOH surplus (net)	1720000	1767000	1694000	1301000	1424000	1049000	731000
Sundry receipts	321000	366000	217000	383000	374000	443000	429000
Less VAT on above items	-753000	0	0	0	0	0	0
Deferred income (box office)	0	0	0	0	304000	288000	0
O/seas tour fundraising & exceptional income [a]	*345500*	0	0	0	0	0	0
Turnover - London [Note 1]	0	0	0	0	0	0	0
Turnover - North [Note 1]	0	0	0	0	0	0	0
Sponsorship & donations	1561000	1694000	1678000	1553000	1654000	1503000	1419000
Interest received [b]	133000	73000	162000	61000	19000	2000	0
City of Westminster ticket subsidy [c]	0	0	0	0	0	0	0
Shared production costs recouped	0	0	0	0	0	0	0
Sale of assets (to income/expenditure account)	0	0	0	0	0	0	0
Insurance receipts and rebates	0	0	0	0	0	0	0
Transfers from reserves to income/expenditure a/c	178000	93000	500000	338000	0	0	0
Total income - private sources	9790500	10757000	10485000	9660000	10139000	10691000	9602000
ACGB general grant	9103000	10432000	11371000	11655000	11655000	11955000	11955000
ACGB guarantee	0	0	0	0	0	0	0
ACGB supplementary & special grants	84000	0	0	0	0	0	0
ACE feasibility study grant [d]	0	0	0	0	0	1063000	307000
ACE commissioning grant	0	0	0	0	0	0	4000
GLC grant (Greater London Council)	0	0	0	0	0	0	0
GLC supplementary grant	0	0	0	0	0	0	0
City of Westminster grant	160000	150000	157000	157000	157000	160000	160000
City of Westminster ticket subsidy [c]	0	0	0	0	0	0	0
O/seas grants & guarantees [a]	*345500*	0	0	0	0	0	0
LA grants (Local Authorities)	0	0	0	0	0	0	0
Total income - public sources	9692500	10582000	11528000	11812000	11812000	13178000	12426000
TURNOVER [current]	19,483,000	21,339,000	22,013,000	21,472,000	21,951,000	23,869,000	22,028,000
Public income factor	50%	50%	52%	55%	54%	55%	56%

Notes: see end of table

Note 1 : In 1980-81, during the period of disaggregation of ENO's northern division, a minimal reporting format was adopted. For these years, no breakdown of income components is provided and the split between private and public sources of income cannot be ascertained.

[a] The 1991 figure represents an estimated 50% split between private and public sources of 'exceptional grants, guarantees and box office income on Soviet Tour' which amounted to £691,000.

[b] Not strictly a private source of income since interest can be earned on public subsidy also.

[c] In 1990 a total of £105,312 was received from the City of Westminster, Gulbenkian Foundation and Ernst & Young with respect to the City of Westminster / Ernst & Young Opera Week (a week of reduced price performances). The City of Westminster contribution was awarded as a 'ticket subsidy' and, estimated at 50% of the above amount, has been deducted from the private sources section of this analysis and restated as a separate item under public sources. The same applies to the 1989 'ticket subsidy' from the City of Westminster, although in this case the precise amount is known.

[d] Represents amounts drawn down from an Arts Council Lottery Board award of £1.384 million to conduct a feasibility study into the future of the London Coliseum (the company's home venue). ENO engaged the management consultancy firm, KPMG, to research the costs and benfits of two options : redevelopment of the Coliseum and construction of a completely new theatre.

Appendix 7-7 : Taxonomy plot - Welsh National Opera

TAXONOMY PLOT : WELSH NATIONAL OPERA									
Source : Annual report and accounts (1976-1995)						NORMALISATION		PLOT DATA	
YEAR	EMPLOYEES [AVG FTE]	PERFORMANCES Mainscale	Smallscale	Data source	TURNOVER [CURRENT]	DEFLATOR	TURNOVER [CONSTANT]	TO/PERF [CONSTANT]	EMP/PERF [AVG FTE]
			Note 1	Refer to key				£000	
1976					1,654,744	3.40	5,626,130		
1977					1,900,403	2.93	5,568,181		
1978		133	1:17	Cal.	2,144,702	2.70	5,790,695		
1979	250	133	0	Cal.	2,513,926	2.39	6,008,283	45.1751	1.88
1980	260	115	1:15	Cal.	3,113,108	2.03	6,319,609	54.9531	2.26
1981	260	130	1:9	Cal.	3,677,791	1.81	6,656,802	51.2062	2.00
1982	260	125	0	Cal.	4,124,093	1.66	6,845,994	54.7680	2.08
1983	283	104	20	Cal.	4,765,136	1.56	7,433,612	71.4770	2.72
1984	299	110	0	Cal.	5,322,514	1.51	8,036,996	73.0636	2.72
1985	255	117	1:10	Cal.	5,348,054	1.43	7,647,717	65.3651	2.18
1986	268	91	8	Cal.	5,781,877	1.39	8,036,809	88.3166	2.95
1987	290	97	13	Cal.	6,437,179	1.33	8,561,448	88.2624	2.99
1988	242	100	1:10	Cal.	6,474,902	1.27	8,223,126	82.2313	2.42
1989	258	113	13	Acc.	7,661,917	1.17	8,964,443	79.3314	2.28
1990	283	116	52	Acc.	8,400,032	1.07	8,988,034	77.4831	2.44
1991	245	111	51	Acc.	10,724,495	1.00	10,724,495	96.6171	2.21
1992	311	117	1:60	Cal.	10,362,899	0.96	9,948,383	85.0289	2.66
1993	349	123	1:44	Cal.	12,025,889	0.94	11,304,336	91.9052	2.84
1994	336	106	1:54	Cal.	12,237,327	0.93	11,380,714	107.3652	3.17
1995	301	111	0	Cal.	10,308,585	0.90	9,277,727	83.5831	2.71

KEY

Acc. Performance figures as stated in annual report and accounts for relevant year.

Cal. Performance figures computed from published calendar [see methodology].

Note 1

Smallscale performances figures have been recorded where possible and as a guide only. These performances have not been included in the taxonomy plot data since significant distortion would result. The BP Opera Circuit activity in 1992, for instance, distorts performance figures by some 50%. Data format [production : performances].

Appendix 7-8 : Financial data - Welsh National Opera

FINANCIAL DATA : WELSH NATIONAL OPERA										
Source : Annual reports and accounts (1976-1995)										
YEAR	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
INCOME [CURRENT PRICES] Note 1										
Turnover including box office and grants [a]	0	0	0	0	0	0	0	0	5242086	5267569
Turnover less box office and grants [a]	0	0	0	0	0	0	0	0	0	0
Turnover less grants including box office [a]	0	0	0	0	0	0	0	0	0	0
Grants & donations	1384538	1541776	1711870	1956673	2220693	2727290	3146265	3715986	0	0
Performances	270206	336716	424139	550860	794201	895975	872756	1038976	0	0
Interest received [d]	0	21911	8693	6393	7362	4526	5072	10174	0	4816
WNO (Services) turnover (sales)	0	0	0	0	0	0	0	0	80428	75669
Transfer from reserves to income/expenditure a/c	0	0	0	0	0	0	0	0	0	0
Sale of leasehold premises	0	0	0	0	2982	0	0	0	0	0
Total income - private sources	not known	not known	not known	not known	not known	not known	not known	not known	not known	not known
ACGB + WAC general grant	Note 2									
ACGB supplementary & special grants					87870	50000	100000	0		
Other grants & donations (public)										
Total income - public sources	not known	not known	not known	not known	not known	not known	not known	not known	not known	not known
TURNOVER [current]	1,654,744	1,900,403	2,144,702	2,513,926	3,113,108	3,677,791	4,124,093	4,765,136	5,322,514	5,348,054
Public income factor	not known	not known	not known	not known	not known	not known	not known	not known	not known	not known

Notes: see end of table

Appendix 7-8 : Financial data - Welsh National Opera (continued)

FINANCIAL DATA : WELSH NATIONAL OPERA

Source : Annual reports and accounts (1976-1995)

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
INCOME [CURRENT PRICES] Note 1										
Turnover including box office and grants [a]	5774262	6429180	6468191	0	0	0	0	0	0	0
Turnover less box office and grants [a]	0	0	0	1249173	1484638	0	0	0	0	0
Turnover less grants including box office [a]	0	0	0	0	0	4884094	4514729	5692900	5852461	3882393
Grants & donations	0	0	0	0	0	0	0	0	0	0
Performances	0	0	0	1963956	2297828	0	0	0	0	0
Interest received [d]	7615	7999	6711	29788	7566	41081	73410	80161	29366	19542
WNO (Services) turnover (sales)	0	0	0	0	0	0	0	0	0	0
Transfer from reserves to income/expenditure a/c	0	0	0	0	0	0	0	12128	0	0
Sale of leasehold premises	0	0	0	0	0	0	0	0	0	0
Total income - private sources	not known	not known	not known	3,242,917	3,790,032	4,925,175	4,588,139	5,785,189	5,881,827	3,901,935
ACGB + WAC general grant				4419000	4460000	4957320	5774760	6240700	6355500	6406650
ACGB supplementary & special grants					150000	842000				
Other grants & donations (public)										
Total income - public sources	not known	not known	not known	4,419,000	4,610,000	5,799,320	5,774,760	6,240,700	6,355,500	6,406,650
TURNOVER [current]	5,781,877	6,437,179	6,474,902	7,661,917	8,400,032	10,724,495	10,362,899	12,025,889	12,237,327	10,308,585
Public income factor	not known	not known	not known	58%	55%	54%	56%	52%	52%	62%

Notes: see end of table

Appendix 7-8 : Financial data - Welsh National Opera (continued)

Note 1 Whilst some public source components of income have been stated in the accounts, reporting is neither comprehensive nor consistent. For this reason the year on year public / private income source split cannot be properly ascertained.

Note 2 Items are presented in the public sources section of this analysis when information is available and as a guide only. See Note 1.

[a] Three different reporting formats for turnover have been adopted by WNO during the period covered by this analysis. These have been itemized individually for clarity. However, it should be noted that the public subsidy component of turnover is not provided in the notes to the accounts until 1989. It is therefore not possible to ascertain the precise value of public subsidy awarded to WNO before this time.

[b] In the absence of further information in the accounts, this item has been treated as a private source of income. It is likely, however, that an element of Local Authority (public) funding is subsumed within this item.

[c] WNO (Services) was set up as a wholly owned subsidiary in 1984 to provide catering services to WNO. The subsidiary was taken into direct. operation again in 1988. Income for the subsidiary in its last 3 active years (1986-88) is not reported. However, by 1987 a net asset deficiency of £18,319 is reported and at 1988, following a loss for the year of £6,675 (implying a net income contribution of £0), the net asset deficiency is reported as £98. This does not tally and suggests that WNO either paid in equity, made a loan, or arranged some other transaction(s) with its subsidiary. By 1989 WNO (Services) is dormant and consolidated accounts are no longer presented.

[d] Not strictly a private source of income since interest can be earned on public subsidy also.

Appendix 7-9 : Taxonomy plot - Opera North

TAXONOMY PLOT DATA : OPERA NORTH								
Source : Annual report and accounts (1982-1997)					NORMALISATION		PLOT DATA	
YEAR	EMPLOYEES [AVG FTE]	PERFORMANCES Mainscale	Data source	TURNOVER [CURRENT]	DEFLATOR	TURNOVER [CONSTANT]	TO/PERF [CONSTANT]	EMP/PERF [AVG FTE]
			Refer to key	£		£	£000	
1982	150	113	Cal.	2,653,339	1.66	4,404,543	38.9783	1.33
1983	148	110	Cal.	3,008,658	1.56	4,693,506	42.6682	1.35
1984	148	110	Acc.	3,426,610	1.51	5,174,181	47.0380	1.35
1985	156	114	Acc.	3,759,474	1.43	5,376,048	47.1583	1.37
1986	156	94	Acc.	3,874,833	1.39	5,386,018	57.2981	1.66
1987	157	93	Acc.	4,071,553	1.33	5,415,165	58.2276	1.69
1988	150	89	Acc.	4,534,480	1.27	5,758,790	64.7055	1.69
1989	146	104	Acc.	5,109,063	1.17	5,977,604	57.4770	1.40
1990	144	124	Acc.	5,718,067	1.07	6,118,332	49.3414	1.16
1991	156	100	Acc.	5,799,462	1.00	5,799,462	57.9946	1.56
1992	160	107	Acc.	7,297,050	0.96	7,005,168	65.4689	1.50
1993	155	111	Acc.	8,317,307	0.94	7,818,269	70.4349	1.40
1994	157	118	Acc.	8,640,930	0.93	8,036,065	68.1022	1.33
1995	154	116	Acc.	8,683,729	0.90	7,815,356	67.3738	1.33
1996	158	105	Acc.	8,613,097	0.87	7,493,394	71.3657	1.50
1997	158	109	Acc.	9,077,704	0.84	7,625,271	69.9566	1.45

KEY Acc. Performance figures as stated in Annual report and accounts for relevant year.

Cal. Performance figures computed from published calendar [see methodology].

FINANCIAL DATA : OPERA NORTH

Source : Annual reports and accounts (1982-1997)

YEAR	1982	1983	1984	1985	1986	1987	1988	1989	1990
INCOME [CURRENT PRICES]									
Box office receipts	649861	0	0	0	782326	698507	937611	1238074	1442556
House receipts (Leeds)	0	311389	292437	336812	0	0	0	0	0
Box office receipts - opera	0	0	0	0	0	0	0	0	0
Box office recipts - concerts	0	0	0	0	0	0	0	0	0
Tour receipts	0	175129	319896	363298	0	0	0	0	0
Sundry receipts	0	55760	61394	93282	0	0	0	0	0
Interest received [a]	20672	9423	3086	2906	11857	10432	36353	20549	36249
Fundraising [b]	0	175686	71516	157451	0	0	117886	162570	534642
Exceptional item - sale of fixed assets	0	0	300	0	0	0	0	0	0
Total income - private sources	**670533**	**727387**	**748629**	**953749**	**not known**	**not known**	**1091850**	**1421193**	**2013447**
All grants & fundraising [c]	0	0	0	0	3080650	3362614	0	0	0
ACGB general grant	1500000	1350000	1600000	1902500	0	0	2592880	2722800	2796570
LA grants & fundraising	382806	0	0	0	0	0	0	0	0
LA grants (only)	0	486500	622500	666225	0	0	849750	865070	868050
Other grants	100000	0	0	0	0	0	0	0	0
ACGB guarantee	0	344771	399629	237000	0	0	0	0	0
ACGB incentive grant	0	0	0	0	0	0	0	100000	40000
ACGB supplementary (deficit) grant	0	100000	55852	0	0	0	0	0	0
Total income - public sources	**1982806**	**2281271**	**2677981**	**2805725**	**not known**	**not known**	**3442630**	**3687870**	**3704620**
TURNOVER [current]	**2,653,339**	**3,008,658**	**3,426,610**	**3,759,474**	**3,874,833**	**4,071,553**	**4,534,480**	**5,109,063**	**5,718,067**
Public income factor	75%	76%	78%	75%	not known	not known	76%	72%	65%

Notes: see end of table

Appendix 7-10 : Financial data - Opera North (continued)

FINANCIAL DATA : OPERA NORTH							
Source : Annual reports and accounts (1982-1997)							
YEAR	1991	1992	1993	1994	1995	1996	1997
INCOME [CURRENT PRICES]							
Box office receipts	1365944	1626776	1926384	1938393	2097242	0	0
House receipts (Leeds)	0	0	0	0	0	0	0
Box office receipts - opera	0	0	0	0	0	1584482	1853441
Box office recipts - concerts	0	0	0	0	0	240266	374113
Tour receipts	0	0	0	0	0	0	0
Sundry receipts	0	0	0	0	0	0	0
Interest received [a]	35709	25188	37245	24392	14935	33669	17325
Fundraising [b]	419732	0	0	0	0	590924	816745
Exceptional item - sale of fixed assets	0	0	0	0	0	0	0
Total income - private sources	**1821385**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
All grants & fundraising [c]	0	5625086	6353678	6678145	6571552	0	0
ACGB general grant	3014877	0	0	0	0	4830756	4909000
LA grants & fundraising	0	0	0	0	0	0	0
LA grants (only)	923200	0	0	0	0	1333000	1107080
Other grants	0	0	0	0	0	0	0
ACGB guarantee	0	0	0	0	0	0	0
ACGB incentive grant	40000	20000	0	0	0	0	0
ACGB supplementary (deficit) grant	0	0	0	0	0	0	0
Total income - public sources	**3978077**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
TURNOVER [current]	**5,799,462**	**7,297,050**	**8,317,307**	**8,640,930**	**8,683,729**	**8,613,097**	**9,077,704**
Public income factor	69%	not known	not known	not known	not known	not known	not known

Notes: see end of table

Appendix 7-10 : Financial data - Opera North (continued)

Note [a] Not strictly a private source of income since interest can be earned on public subsidy also.

[b] For the purposes of analysis this item has been treated as private income. It is not certain from the accounts, however, whether this is a correct interpretation since the term 'fundraising' is also used by ON to refer to public source grant income.

[c] For the years 1986-87 and 1992-95, the main public sources of income are reported in aggregate only. This figure also includes an unquantified component of private fundraising - see note [b]. The private / public source income split cannot therefore be ascertained for these years.

Appendix 7-11 : Taxonomy plot - Glyndebourne Productions

TAXONOMY PLOT DATA : GLYNDEBOURNE PRODUCTIONS [GLYNDEBOURNE FESTIVAL OPERA + GLYNDEBOURNE TOURING OPERA]								
Source : Annual report and accounts (1972-1996)				NORMALISATION		PLOT DATA		
YEAR	EMPLOYEES [AVG FTE]	PERFORMANCES GFO+GTO	Data source	TURNOVER [CURRENT]	DEFLATOR	TURNOVER [CONSTANT]	TO/PERF [CONSTANT]	EMP/PERF [AVG FTE]
		Note 1	Refer to key	Corrected to remove effects of theatre rebuilding donations. £		Corrected to remove effects of theatre rebuilding donations. £	£000	
1972	Not reported			392,419	6.23	2,444,770		
1973	Not reported			486,346	5.70	2,772,172		
1974	Not reported			513,239	4.93	2,530,268		
1975	Not reported			633,348	3.97	2,514,392		
1976	Not reported			743,870	3.40	2,529,158		
1977	Not reported			956,564	2.93	2,802,733		
1978	Not reported			1,175,429	2.70	3,173,658		
1979	Not reported			1,134,546	2.39	2,711,565		
1980	Not reported			1,278,168	2.03	2,594,681		
1981	Not reported	85	Cal.	1,508,386	1.81	2,730,179		
1982	109	88	Cal.	2,633,622	1.66	4,371,813	49.6797	1.24
1983	115	95	Cal.	3,063,787	1.56	4,779,508	50.3106	1.21
1984	123	96	Cal.	3,685,277	1.51	5,564,768	57.9663	1.28
1985	131	94	Cal.	3,982,752	1.43	5,695,335	60.5887	1.39
1986	141	97	Cal.	4,623,602	1.39	6,426,807	66.2557	1.45
1987	138	104	Cal.	4,931,171	1.33	6,558,457	63.0621	1.33
1988	130	110	Cal.	6,614,028	1.27	8,399,816	76.3620	1.18
1989	148	111	Cal.	6,740,798	1.17	7,886,734	71.0517	1.33
1990	147	115	Cal.	7,372,236	1.07	7,888,293	68.5938	1.28
1991	178	115	Cal.	8,113,796	1.00	8,113,796	70.5547	1.55
1992	146	79	Cal.	8,198,536	0.96	7,870,595	99.6278	1.85
1993	75	38	Cal.	2,128,661	0.94	2,000,941	52.6564	1.97
1994	202	106	Cal.	9,821,534	0.93	9,134,027	86.1701	1.91
1995	208	92	Cal.	10,888,552	0.90	9,799,697	106.5184	2.26
1996	213	119	Cal.	11,913,258	0.87	10,364,534	87.0969	1.79

KEY

Acc. Performance figures as stated in Annual report and accounts for relevant year.

Cal. Performance figures computed from published calendar [see methodology].

Note 1

The principal activity of Glyndebourne Productions is the production of opera at Glyndebourne Festival Theatre (by GFO and GTO) of mainscale opera and an annual tour (GTO). GTO performances form an integral part of mainscale activity, and are therefore included in the taxonomy plot data.

Appendix 7-12 : Financial data - Glyndebourne Productions

FINANCIAL DATA : GLYNDEBOURNE PRODUCTIONS [GFO+GTO]

Source : Annual report and accounts (1972-1996)

Note 3 YEAR	1972	1973	1974	1975	1976	1977	1978	1979	1980
INCOME [CURRENT PRICES]									
Note 1									
Total income - private sources	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
Turnover as per notes to the accounts [Note 2]	392,419	486,346	513,239	633,348	743,870	956,564	1,175,429	1,134,546	1,278,168
Turnover as per income/expenditure a/c [Note 2]	0	0	0	0	0	0	0	0	0
Bank interest received [a]	0	0	0	0	0	0	0	0	0
Release of reserves to income/expenditure a/c	0	0	0	0	0	0	0	0	0
Exceptional income : theatre rebuilding donations [b]	0	0	0	0	0	0	0	0	0
Total income - public sources	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
TURNOVER [current]	**392,419**	**486,346**	**513,239**	**633,348**	**743,870**	**956,564**	**1,175,429**	**1,134,546**	**1,278,168**
Public income factor	not known	not known	not known	not known	not known	not known	not known	not known	not known
CORRECTED INCOME:									
LESS THEATRE REBUILDING DONATIONS									
Exceptional income : theatre rebuilding donations [b]	0	0	0	0	0	0	0	0	0
CORRECTED TURNOVER [current]	**392,419**	**486,346**	**513,239**	**633,348**	**743,870**	**956,564**	**1,175,429**	**1,134,546**	**1,278,168**
Correction factor (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%

Appendix 7-12 : Financial data - Glyndebourne Productions (continued)

FINANCIAL DATA : GLYNDEBOURNE PRODUCTIONS [GFO+GTO]									
Source : Annual report and accounts (1972-1996)									
Note 3								15 mnths	
YEAR	1981	1982	1983	1984	1985	1986	1987	1988	1989
INCOME [CURRENT PRICES]									
Note 1									
Total income - private sources	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
Turnover as per notes to the accounts [Note 2]	1,508,386	2,633,622	0	0	0	0	0	0	0
Turnover as per income/expenditure a/c [Note 2]	0	0	3015230	3641415	3796576	4545282	4683323	6510093	6527606
Bank interest received [a]	0	0	48557	43862	63968	78320	95238	103935	213192
Release of reserves to income/expenditure a/c	0	0	0	0	122208	0	152610	0	0
Exceptional income : theatre rebuilding donations [b]	0	0	0	0	0	0	0	0	0
Total income - public sources	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
TURNOVER [current]	**1,508,386**	**2,633,622**	**3,063,787**	**3,685,277**	**3,982,752**	**4,623,602**	**4,931,171**	**6,614,028**	**6,740,798**
Public income factor	not known	not known	not known	not known	not known	not known	not known	not known	not known
CORRECTED INCOME:									
LESS THEATRE REBUILDING DONATIONS									
Exceptional income : theatre rebuilding donations [b]	0	0	0	0	0	0	0	0	0
CORRECTED TURNOVER [current]	**1,508,386**	**2,633,622**	**3,063,787**	**3,685,277**	**3,982,752**	**4,623,602**	**4,931,171**	**6,614,028**	**6,740,798**
Correction factor (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%

Appendix 7-12 : Financial data - Glyndebourne Productions (continued)

FINANCIAL DATA : GLYNDEBOURNE PRODUCTIONS [GFO+GTO]							
Source : Annual report and accounts (1972-1996)							
Note 3							
YEAR	1990	1991	1992	1993	1994	1995	1996
INCOME [CURRENT PRICES]							
Note 1							
Total income - private sources	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
Turnover as per notes to the accounts [Note 2]	0	0	0	0	0	0	0
Turnover as per income/expenditure a/c [Note 2]	7046242	7826910	8035978	2077829	9772869	10726990	11602184
Bank interest received [a]	321010	286886	162558	50832	48665	161562	311074
Release of reserves to income/expenditure a/c	4984	0	0	0	0	0	0
Exceptional income : theatre rebuilding donations [b]	0	9053438	6966191	12295994	5430591	1933924	1046053
Total income - public sources	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
TURNOVER [current]	**7,372,236**	**17,167,234**	**15,164,727**	**14,424,655**	**15,252,125**	**12,822,476**	**12,959,311**
Public income factor	not known	not known	not known	not known	not known	not known	not known
CORRECTED INCOME:							
LESS THEATRE REBUILDING DONATIONS							
Exceptional income : theatre rebuilding donations [b]	0	9053438	6966191	12295994	5430591	1933924	1046053
CORRECTED TURNOVER [current]	**7,372,236**	**8,113,796**	**8,198,536**	**2,128,661**	**9,821,534**	**10,888,552**	**11,913,258**
Correction factor (%)	0%	-53%	-46%	-85%	-36%	-15%	-8%

Appendix 7-12 : Financial data - Glyndebourne Productions (continued)

Note 1 Insufficient data is presented in the accounts to ascertain the level of public subsidy contributed by GTO to the group operation, Glyndebourne Productions.

Note 2 It has not been possible to compute the income of GP from first principles, thus preventing the statement of GP turnover on an equivalent basis to other companies in this study. This is because the main income items have been reported in the accounts in aggregate and on a contribution basis only (that is, as excess income over expenditure only).

Note 3 The year ending 1988 represents a 15 month financial year (01-10-87 to 31-12-88). This was done by GP in order to adjust the accounting reference date (year end) from 30 September to 31 December.

[a] Not strictly a private source of income since interest can be earned on public subsidy also. Note GTO receives public subsidy for its touring work.

[b] Comprises charitable donations (plus bank interest) received in respect of the Glyndebourne Festival Theatre Rebuilding Project. Whilst utlimately this is a balance sheet item (to be capitalized as a fixed asset upon completion of the theatre) during the fundraising period (from 1991) it has been treated by GP as an income/expenditure account item. Whilst this causes a significant distorion of the turnover figure, it does reflect real activity and a fundamental change to the financial structure of GP. The change also increases the degree of financial risk.

Appendix 7-13 : Taxonomy plot - Opera Restor'd

TAXONOMY PLOT DATA : OPERA RESTORED								
Source : Annual report and accounts (1987-92)								
					NORMALISATION		PLOT DATA	
YEAR	EMPLOYEES [AVG FTE]	PERFORMANCES	Data source	TURNOVER [CURRENT]	DEFLATOR	TURNOVER [CONSTANT]	TO/PERF [CONSTANT]	EMP/PERF [AVG FTE]
	Note 2		Refer to key	Note 1 £		£	£000	
1987				32582	1.33	43334		
1988				13078	1.27	16609		
1989				31268	1.17	36584		
1990	32	17	Cal.	77295	1.07	82706	4.8650	1.88
1991	29	11	Cal.	49211	1.00	49211	4.4737	2.64
1992	44	13	Cal.	62489	0.96	59989	4.6146	3.38
1993								
1994								
1995								
1996								

Note 1 : 1990: extraordinary income of £17,600 received on liquidation of Opera da Camera.
2 : Staff: all on short-term contracts of less than 12 months.
Prior to 1990, dDirectors of opinion that calculation of average number of employees during year meaningless because of the short-term nature of each engagement

Appendix 7-14 : Financial data - Opera Restor'd

FINANCIAL DATA : OPERA RESTOR'D						
Source : Annual reports and accounts (1987-1992)						
YEAR	1987	1988	1989	1990	1991	1992
INCOME [CURRENT PRICES] [£] Note 1						
Stated turnover (net)	0	12797	31167	54111	47097	60007
Performances	29524	0	0	0	0	0
Other income (FOH & merchandising)	1070	0	0	0	0	0
Interest received [a]	116	281	101	539	2114	2482
Donations & Friends' organisation	1699	0	0	0	0	0
Recoverable expenses from artists	173	0	0	0	0	0
Release of reserves to income/expenditure a/c	0	0	0	4973	0	0
Extraordinary income	0	0	0	17672	0	0
Total income - private sources	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
Note 1						
Total income - public sources	**not known**	**not known**	**not known**	**not known**	**not known**	**not known**
TURNOVER [current]	**32,582**	**13,078**	**31,268**	**77,295**	**49,211**	**62,489**
Public income factor	not known	not known	not known	not known	not known	not known

Note 1 Opera Restor'd is defined as a small company under the terms of the Companies Act 1985.
Accordingly, it is not required to produce accounts in the kind of detail which would permit computation of its income from first principles.

[a] Not strictly a private source of income since interest can be earned on public subsidy also.

Appendix 7-15 : Management control data - Scottish Opera

MANAGEMENT CONTROL DATA : SCOTTISH OPERA									
Source : Annual reports and accounts (1963-1996)									
[£] YEAR	**1963a**	**1963b**	**1964**	**1965**	**1966**	**1967**	**1968**	**1969**	**1970**
DEFLATOR	9.87	9.87	9.56	9.11	8.77	8.57	8.19	7.76	7.30
Stated surplus / deficit in year [current]	-292	-936	-509	-2,266	-14,747	-3,743	3,640	-17,390	8,556
Less above the line exceptional items [a]	0	0	0	0	0	0	0	0	0
Actual surplus / deficit in year [current]	-292	-936	-509	-2,266	-14,747	-3,743	3,640	-17,390	8,556
Actual surplus / deficit in year [constant]	-2,882	-9,238	-4,866	-20,643	-129,331	-32,078	29,812	-134,946	62,459
Turnover [current]	7,557	22,658	34,030	46,122	83,269	19,834	133,539	0	0
Turnover [constant]	74,588	223,634	325,327	420,171	730,269	169,977	1,093,684	0	0
Actual surplus / deficit as % turnover [constant]	-3.86	-4.13	-1.50	-4.91	-17.71	-18.87	2.73		
Year in which identifiable special deficit funding received [b]						-18.87	2.73		
Accumulated deficit [current]	-292	-1,288	-1,737	-4,003	-18,750	-19,584	-12,970	-30,526	-22,701
Accumulated deficit [constant]	-2,882	-12,713	-16,606	-36,467	-164,438	-167,835	-106,224	-236,882	-165,717
Year in which identifiable special deficit funding received [b]						-167,835	-106,224		

Notes: see end of table

MANAGEMENT CONTROL DATA : SCOTTISH OPERA										
Source : Annual reports and accounts (1963-1996)										
[£] YEAR	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
DEFLATOR	6.67	6.23	5.70	4.93	3.97	3.40	2.93	2.70	2.39	2.03
Stated surplus / deficit in year [current]	-26,818	25	21,407	-15,358	-26,142	-23,441	-203,729	94,068	-36,036	-85,552
Less above the line exceptional items [a]	0	40,689	0	0	0	0	0	0	0	0
Actual surplus / deficit in year [current]	-26,818	-40,664	21,407	-15,358	-26,142	-23,441	-203,729	94,068	-36,036	-85,552
Actual surplus / deficit in year [constant]	-178,876	-253,337	122,020	-75,715	-103,784	-79,699	-596,926	253,984	-86,126	-173,671
Turnover [current]	0	0	0	0	1,143,789	1,563,073	2,228,822	2,302,048	2,545,822	3,104,191
Turnover [constant]	0	0	0	0	4,540,842	5,314,448	6,530,448	6,215,530	6,084,515	6,301,508
Actual surplus / deficit as % turnover [constant]		0.00		- .	-2.29	-1.50	-9.14	4.09	-1.42	-2.76
Year in which identifiable special deficit funding received [b]							-9.14			
Accumulated deficit [current]	-40,689	62	18,582	5,493	-23,441	-203,727	-262,382	-131,104	-279,904	-440,011
Accumulated deficit [constant]	-271,396	386	105,917	27,080	-93,061	-692,672	-768,779	-353,981	-668,971	-893,222
Year in which identifiable special deficit funding received [b]		386					-768,779			

Notes: see end of table

Appendix 7-15 : Management control data - Scottish Opera (continued)

MANAGEMENT CONTROL DATA : SCOTTISH OPERA										
Source : Annual reports and accounts (1963-1996)										
[£] YEAR	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**
DEFLATOR	1.81	1.66	1.56	1.51	1.43	1.39	1.33	1.27	1.17	1.07
Stated surplus / deficit in year [current]	88,057	77,471	498,222	633,662	-56,634	-85,139	8,572	-96,142	-17,177	-105,740
Less above the line exceptional items [a]	46,282	0	625,000	465,000	0	0	0	0	0	0
Actual surplus / deficit in year [current]	41,775	77,471	-126,778	168,662	-56,634	-85,139	8,572	-96,142	-17,177	-105,740
Actual surplus / deficit in year [constant]	75,613	128,602	-197,774	254,680	-80,987	-118,343	11,401	-122,100	-20,097	-113,142
Turnover [current]	3,527,334	3,610,150	3,894,986	4,876,848	4,668,577	4,905,102	5,494,592	5,378,103	6,271,667	6,392,818
Turnover [constant]	6,384,475	5,992,849	6,076,178	7,364,040	6,676,065	6,818,092	7,307,807	6,830,191	7,337,850	6,840,315
Actual surplus / deficit as % turnover [constant]	1.18	2.15	-3.25	3.46	-1.21	-1.74	0.16	-1.79	-0.27	-1.65
Year in which identifiable special deficit funding received [b]			12.79	3.46						
Accumulated deficit [current]	-443,312	-410,629	-452,851	10,216	-5,279	-26,489	-25,655	-128,883	-186,667	-300,745
Accumulated deficit [constant]	-802,395	-681,644	-706,448	15,426	-7,549	-36,820	-34,121	-163,681	-218,400	-321,797
Year in which identifiable special deficit funding received [b]			-706,448	15,426						

Notes: see end of table

Appendix 7-15 : Management control data - Scottish Opera (continued)

MANAGEMENT CONTROL DATA : SCOTTISH OPERA						
Source : Annual reports and accounts (1963-1996)						
[£] YEAR	1991	1992	1993	1994	1995	1996
DEFLATOR	1.00	0.96	0.94	0.93	0.90	0.87
Stated surplus / deficit in year [current]	-368,601	299,847	288,076	97,660	-127,911	-84,968
Less above the line exceptional items [a]	0	500,000	0	0	0	185,000
Actual surplus / deficit in year [current]	-368,601	-200,153	288,076	97,660	-127,911	-269,968
Actual surplus / deficit in year [constant]	-368,601	-192,147	270,791	90,824	-115,120	-234,872
Turnover [current]	7,409,829	8,008,143	8,188,269	8,126,373	8,575,912	8,581,614
Turnover [constant]	7,409,829	7,687,817	7,696,973	7,557,527	7,718,321	7,466,004
Actual surplus / deficit as % turnover [constant]	-4.97	-2.50	3.52	1.20	-1.49	-3.15
Year in which identifiable special deficit funding received [b]		-2.50				-3.15
Accumulated deficit [current]	-676,159	-376,312	-88,236	9,424	-127,911	-108,823
Accumulated deficit [constant]	-676,159	-361,260	-82,942	8,764	-115,120	-94,676
Year in which identifiable special deficit funding received [b]		-361,260				-94,676

Notes: see end of table

Appendix 7-15 : Management control data - Scottish Opera (continued)

Notes :

[a] Exceptional items (of public source income) appearing before the calculation of the current surplus / deficit in the income and expenditure account. That is, actual external cash injections from public sources as opposed to internal release of reserves. E.g. 1984 : £465,000 representing a special Arts Council capital funding grant designed to fund the capital shortfall in the company arising from acquisition and restoration of the Theatre Royal.

[b] Nominal values for plot purposes only.

[c] Estimate of above the line exceptional funding element aggregated with 'SAC other grants'. Estimate based on previous year non-exceptional pattern.

Appendix 7-16 : Management control data - Royal Opera House, Covent Garden

MANAGEMENT CONTROL DATA : ROYAL OPERA HOUSE [GROUP]									
Source : Annual reports and accounts (1973-1996)			[c]			[d]	[e]		
[£] YEAR	1973	1974	1975	1976	1977	1978	1979	1980	1981
DEFLATOR	5.70	4.93	3.97	3.40	2.93	2.70	2.39	2.03	1.81
Stated surplus / deficit in year [current]	58,505	-209,047	-67,932	115,052	-7,454	-375,569	0	0	0
Less above the line exceptional items [a]	0	0	0	0	0	25,000	0	0	0
Actual surplus / deficit in year [current]	58,505	-209,047	-67,932	115,052	-7,454	-400,569	0	0	0
Actual surplus / deficit in year [constant]	333,479	-1,030,602	-269,690	391,177	-21,840	-1,081,536	0	0	0
Turnover (ROH group) [current]	3,758,304	4,133,141	5,175,363	6,330,260	7,682,123	8,695,449	10,020,994	12,676,822	14,416,289
Turnover (ROH group)[constant]	21,422,333	20,376,385	20,546,191	21,522,884	22,508,620	23,477,712	23,950,176	25,733,949	26,093,483
Actual surplus / deficit as % turnover [constant]	1.56	-5.06	-1.31	1.82	-0.10	-4.61	0.00	0.00	0.00
Year in which below the line deficit funding received [b]							0.00	0.00	
Accumulated deficit [current]	38,072	-170,975	-238,367	126,685	-15,971	-272,338	-107,808	-7,808	-7,808
Accumulated deficit [constant]	217,010	-842,907	-946,317	430,729	-46,795	-735,313	-257,661	-15,850	-14,132
Year in which below the line deficit funding received [b]									

Notes: see end of table

Appendix 7-16 : Management control data - Royal Opera House, Covent Garden (continued)

MANAGEMENT CONTROL DATA : ROYAL OPERA HOUSE [GROUP]									
Source : Annual reports and accounts (1973-1996)							[f]		
[£] YEAR	1982	1983	1984	1985	1986	1987	1988	1989	1990
DEFLATOR	1.66	1.56	1.51	1.43	1.39	1.33	1.27	1.17	1.07
Stated surplus / deficit in year [current]	0	-219,226	0	0	603,000	-574,000	-522,000	6,000	-2,853,000
Less above the line exceptional items [a]	0	0	0	0	0	0	0	0	0
Actual surplus / deficit in year [current]	0	-219,226	0	0	603,000	-574,000	-522,000	6,000	-2,853,000
Actual surplus / deficit in year [constant]	0	-341,993	0	0	838,170	-763,420	-662,940	7,020	-3,052,710
Turnover (ROH group) [current]	17,451,027	18,886,552	23,048,640	23,741,000	26,340,000	30,434,000	30,903,000	35,066,000	39,485,000
Turnover (ROH group)[constant]	28,968,705	29,463,021	34,803,446	33,949,630	36,612,600	40,477,220	39,246,810	41,027,220	42,248,950
Actual surplus / deficit as % turnover [constant]	0.00	-1.16	0.00	0.00	2.29	-1.89	-1.69	0.02	-7.23
Year in which below the line deficit funding received [b]			0.00						
Accumulated deficit [current]	0	-219,226	0	0	603,000	29,000	-493,000	-487,000	-3,340,000
Accumulated deficit [constant]	0	-341,993	0	0	838,170	38,570	-626,110	-569,790	-3,573,800
Year in which below the line deficit funding received [b]									

Notes: see end of table

Appendix 7-16 : Management control data - Royal Opera House, Covent Garden (continued)

MANAGEMENT CONTROL DATA : ROYAL OPERA HOUSE [GROUP]							
Source : Annual reports and accounts (1973-1996)			[g]			[h][i]	
[£] YEAR	1991	1992	1993	1994	1995	1996	1997
DEFLATOR	1.00	0.96	0.94	0.93	0.90	0.87	0.84
Stated surplus / deficit in year [current]	-502,000	-1,445,000	849,000	1,446,000	689,000	-3,080,000	-1,516,000
Less above the line exceptional items [a]	0	0	0	0	0	0	0
Actual surplus / deficit in year [current]	-502,000	-1,445,000	849,000	1,446,000	689,000	-3,080,000	-1,516,000
Actual surplus / deficit in year [constant]	-502,000	-1,387,200	798,060	1,344,780	620,100	-2,679,600	-1,273,440
Turnover (ROH group) [current]	44,129,000	48,754,000	54,822,000	53,197,000	57,712,000	67,049,000	-
Turnover (ROH group)[constant]	44,129,000	46,803,840	51,532,680	49,473,210	51,940,800	58,332,630	-
Actual surplus / deficit as % turnover [constant]	-1.14	-2.96	1.55	2.72	1.19	-4.59	-
Year in which below the line deficit funding received [b]							
Accumulated deficit [current]	-2,198,000	-3,643,000	-2,794,000	-1,364,000	-683,000	-3,149,000	-4,665,000
Accumulated deficit [constant]	-2,198,000	-3,497,280	-2,626,360	-1,268,520	-614,700	-2,739,630	-3,918,600
Year in which below the line deficit funding received [b]							

Notes: see end of table

Appendix 7-16 : Management control data - Royal Opera House, Covent Garden (continued)

Notes :

[a] Exceptional items (of public source income) appearing before calculation of the current surplus / deficit in the income and expenditure account. That is, actual external cash injections from public sources as opposed to internal release of reserves. Due to the complex nature of the ROH operation, it is not always possible to detect exceptional funding items - see Note [c].

[b] Nominal data for plot purposes only.

[c] Two below the line items occur in 1975: ACGB VAT grant of £100,000 and ACGB special guarantee of £150,000. Since a wide range of organisations in the public sector received cushioning against the introduction of VAT at this time, the VAT grant has not been deducted. The purpose of the special guarantee is not indicated in the annual accounts, and since it is likely to be related to the introduction of VAT, has likewise not been deducted.

[d] In this year it was agreed that the residue of the ACGB general grant remaining at the year end could be set directly against the accumulated deficit. This amount has not been deducted.

[e] Between 1979 and 1985, the ACGB guarantee amount appears to operate as a balance item specifically calculated to absorb any current deficit which may occur.

[f] Above the line exceptional item : £103,000 on sale of leasehold property. As this is technically an internal cashflow item, it has not been deducted.

[g] Above the line exceptional items : ROH Trust special grants to eliminate deficit in 1993 (£500,000), 1994 (£1,000,000), and 1995 (£1,000,000). Not deducted since technically these items represent a private source of income.

[h] Foreign touring reserve (£237,000) redesignated in order to set against deficit. Though questionable practice, this redesignation represents an internal cashflow and therefore has not been deducted. Change of reporting format in this year from income and expenditure sheet to statement of financial activities (SOFA). Two reserves redesignated in the change of format (foreign touring reserve and privately endowed funds). Specifically, the accumulated deficit is changed to a 'deficit to be recovered from future activities'. This allows the two reserves, which were capital items, to be treated, in effect, as cash items to reduce the overall deficit figure. This change of accounting basis means that the years 1995-96 are not strictly comparable since the 1996 deficit figure is understated by the amount of the two reserves (e.g. by £237,000 foreign touring reserve).

[i] Excludes restricted funds (i.e. development funds for the purposes of refurbishment of Covent Garden).

Appendix 7-17 : Management control data - English National Opera

MANAGEMENT CONTROL DATA : ENGLISH NATIONAL OPERA		[c]				[d]	[e]	[f]
Source : Annual reports and accounts (1971-1997)								
[£] YEAR	1976	1977	1978	1979	1980	1981	1982	1983
DEFLATOR	3.4	2.93	2.7	2.39	2.03	1.81	1.66	1.56
Stated surplus / deficit in year [current]	103	-179,523	-561,863	-186,362	-241,633	-82,364	12,610	0
Less above the line exceptional items [a]	0	0	0	0	0	0	0	40,000
Actual surplus / deficit in year [current]	103	-179,523	-561,863	-186,362	-241,633	-82,364	12,610	-40,000
Actual surplus / deficit in year [constant]	350	-526,002	-1,517,030	-445,405	-490,515	-149,079	20,933	-62,400
Turnover [current]	3,179,250	3,908,105	4,551,771	0	7,948,484	9,025,347	8,710,121	8,990,656
Turnover [constant]	10,809,450	11,450,748	12,289,782	0	16,135,423	16,335,878	14,458,801	14,025,423
Actual surplus / deficit as % turnover [constant]	0.00	-4.59	-12.34		-3.04	-0.91	0.14	-0.44
Year in which below the line deficit funding received [b]	0.00	0.00	0.00			-0.91	0.14	-0.44
Accumulated deficit [current]	0	0	-50,813	-187,175	-428,808	-411,172	-122,706	-82,706
Accumulated deficit [constant]	0	0	-137,195	-447,348	-870,480	-744,221	-203,692	-129,021
Year in which below the line deficit funding received [b]	0	0	-137,195	-447,348		-744,221	-203,692	-129,021

Notes: see end of table

Appendix 7-17 : Management control data - English National Opera (continued)

MANAGEMENT CONTROL DATA : ENGLISH NATIONAL OPERA								
							[g]	
Source : Annual reports and accounts (1971-1997)								
[£] YEAR	1984	1985	1986	1987	1988	1989	1990	1991
DEFLATOR	1.51	1.43	1.39	1.33	1.27	1.17	1.07	1
Stated surplus / deficit in year [current]	-249,766	-848,800	317,097	20,362	51,839	296,667	-393,089	-899,000
Less above the line exceptional items [a]	0	0	0	0	0	0	0	0
Actual surplus / deficit in year [current]	-249,766	-848,800	317,097	20,362	51,839	296,667	-393,089	-899,000
Actual surplus / deficit in year [constant]	-377,147	-1,213,784	440,765	27,081	65,836	347,100	-420,605	-899,000
Turnover [current]	10,584,109	12,352,607	12,735,401	13,246,451	14,454,431	15,940,130	17,671,861	19,483,000
Turnover [constant]	15,982,005	17,664,228	17,702,207	17,617,780	18,357,127	18,649,952	18,908,891	19,483,000
Actual surplus / deficit as % turnover [constant]	-2.36	-6.87	2.49	0.15	0.36	1.86	-2.22	-4.61
Year in which below the line deficit funding received [b]	-2.36							
Accumulated deficit [current]	-249,766	-1,098,566	-478,928	-458,928	-406,727	-110,060	-503,149	-1,403,000
Accumulated deficit [constant]	-377,147	-1,570,949	-665,710	-610,374	-516,543	-128,770	-538,369	-1,403,000
Year in which below the line deficit funding received [b]	-377,147							

Notes: see end of table

Appendix 7-17 : Management control data - English National Opera (continued)

MANAGEMENT CONTROL DATA : ENGLISH NATIONAL OPERA	[h]				[i]	[j]
Source : Annual reports and accounts (1971-1997)						
[£] YEAR	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
DEFLATOR	0.96	0.94	0.93	0.9	0.87	0.84
Stated surplus / deficit in year [current]	88,000	-981,000	-824,000	-767,000	170,000	-1,662,900
Less above the line exceptional items [a]	0	0	0	0	0	0
Actual surplus / deficit in year [current]	88,000	-981,000	-824,000	-767,000	170,000	-1,662,900
Actual surplus / deficit in year [constant]	84,480	-922,140	-766,320	-690,300	147,900	-1,396,836
Turnover [current]	21,339,000	22,013,000	21,472,000	21,951,000	23,869,000	22,028,000
Turnover [constant]	20,485,440	20,692,220	19,968,960	19,755,900	20,766,030	18,503,520
Actual surplus / deficit as % turnover [constant]	0.41	-4.46	-3.84	-3.49	0.71	-7.55
Year in which below the line deficit funding received [b]						-7.55
Accumulated deficit [current]	-1,315,000	-2,296,000	-3,120,000	-3,987,000	-4,007,000	-4,910,000
Accumulated deficit [constant]	-1,262,400	-2,158,240	-2,901,600	-3,588,300	-3,486,090	-4,124,400
Year in which below the line deficit funding received [b]						-4,124,400

Notes: see end of table

Appendix 7-17 : Management control data - English National Opera (continued)

Notes :

[a] Exceptional items (of public source income) appearing before the calculation of the current surplus / deficit in the income and expenditure account. That is, actual external cash injections from public sources as opposed to internal release of reserves. With the exception of a GLC grant (1983 : £40,000) for the purposes of reducing the accumulated deficit, all ENO public source emergency funding appears after the current deficit calculation.

[b] Nominal values for plot purposes only.

[c] From 1976 to 1979 the ACGB guarantee is set directly against the accumulated deficit, absorbing it by 100% in 1976 and 1977. The value of the accumulated deficit absorbed in this way in 1976, for instance, was £24,000.

[d] Below the line item : ACGB supplementary grant (£100,000) set against accumulated deficit.

[e] Current surplus (1982) stated after transfer of £226,000 to assets of Opera North upon disaggregation. Also in this year, below the line item : ACGB supplementary grant (£50,000) set against accumulated deficit.

[f] 1983 and 1984 below the line items : GLC accumulated deficit grant (1982 : £40,000), ACGB special grant to absorb current deficit (1984 : £82,706).

[g] Above the line exceptional item : £114,000 on sale of leasehold property. As this is technically an internal cashflow item, it has not been deducted.

[h] Capital grants fro purchase of the freehold of the London Coliseum are treated as deferred income (balance sheet item). Transfers from this portion of deferred income, made directly to the income and expenditure account, commence 1992.

[i] In 1996 an ACE grant of £1.06 million was received for the purposes of commissioning a special feasibility study. Since this represents hypothecated funding, it has been stated (for the sake of accountability) and subsequently discounted (as non-operational income) by double entry on the income and expenditure sheet. This represents good practice since: a) the funding is reported clearly; and b) it is not allowed to distort the current deficit figure.

[j] Below the line exceptional item : ACGB grant of £1.9 million set directly against the accumulated deficit. Note: restatement of current and accumulated deficit figures in the published accounts follow impact of first year of compliance with SORP (Statement of Recommended Practice) requirements.

Appendix 7-18 : Management control data - Welsh National Opera

MANAGEMENT CONTROL DATA : WELSH NATIONAL OPERA									
Source : Annual reports and accounts (1976-1995)									
[£] YEAR	1979	1980	1981	1982	1983	1984	1985	1986	1987
				[c]					
DEFLATOR	2.39	2.03	1.81	1.66	1.56	1.51	1.43	1.39	1.33
Stated surplus / deficit in year [current]	-44,868	-72,545	-72,592	-943	0	-215,388	-79,744	-303,127	-93,178
Less above the line exceptional items [a]	0	0	0	0	0	0	0	0	0
Actual surplus / deficit in year [current]	-44,868	-72,545	-72,592	-943	0	-215,388	-79,744	-303,127	-93,178
Actual surplus / deficit in year [constant]	-107,235	-147,266	-131,392	-1,565	0	-325,236	-114,034	-421,347	-123,927
Turnover [current]	2,513,926	3,113,108	3,677,791	4,124,093	4,765,136	5,322,514	5,348,054	5,781,877	6,437,179
Turnover [constant]	6,008,283	6,319,609	6,656,802	6,845,994	7,433,612	8,036,996	7,647,717	8,036,809	8,561,448
Actual surplus / deficit as % turnover [constant]	-1.78	-2.33	-1.97	-0.02	0.00	-4.05	-1.49	-5.24	-1.45
Year in which below the line deficit funding received [b]		-2.33	-1.97	-0.02					
Accumulated deficit [current]	-95,582	-80,257	-102,849	18,239	18,239	-197,149	-276,893	-680,020	-773,198
Accumulated deficit [constant]	-228,441	-162,922	-186,157	30,277	28,453	-297,695	-395,957	-945,228	-1,028,353
Year in which below the line deficit funding received [b]		-162,922	-186,157	30,277					
Total capital plus reserves									

Notes: see end of table

MANAGEMENT CONTROL DATA : WELSH NATIONAL OPERA									
Source : Annual reports and accounts (1976-1995)									
[£] YEAR	1988	1989	1990	1991	1992	1993	1994	1995	1996
	[d]		[e]						
DEFLATOR	1.27	1.17	1.07	1.00	0.96	0.94	0.93	0.90	0.87
Stated surplus / deficit in year [current]	226,078	7,715	-319,075	-36,179	602,307	37,861	-633,996	3,132	-
Less above the line exceptional items [a]	0	0	0	0	0	0	0	0	-
Actual surplus / deficit in year [current]	226,078	7,715	-319,075	-36,179	602,307	37,861	-633,996	3,132	-
Actual surplus / deficit in year [constant]	287,119	9,027	-341,410	-36,179	578,215	35,589	-589,616	2,819	-
Turnover [current]	6,474,902	7,661,917	8,400,032	10,724,495	10,362,899	12,025,889	12,237,327	10,308,585	-
Turnover [constant]	8,223,126	8,964,443	8,988,034	10,724,495	9,948,383	11,304,336	11,380,714	9,277,727	-
Actual surplus / deficit as % turnover [constant]	3.49	0.10	-3.80	-0.34	5.81	0.31	-5.18	0.03	-
Year in which below the line deficit funding received [b]				-0.34					
Accumulated deficit [current]	-547,120	-539,405	-685,578	-11,934	313,940	363,929	-270,067	-266,935	-
Accumulated deficit [constant]	-694,842	-631,104	-733,568	-11,934	301,382	342,093	-251,162	-240,242	-
Year in which below the line deficit funding received [b]				-11,934					
Total capital plus reserves							1,190,263	1,048,476	

Notes: see end of table

Appendix 7-18 : Management control data - Welsh National Opera (continued)

Notes :

[a] Exceptional items (of public source income) appearing before calculation of the current surplus / deficit in the income and expenditure account. That is, actual external cash injections from public sources as opposed to internal release of reserves. E.g. 1991 : £842,000 represents Welsh Arts Council special deficit grant received via the Welsh Office.

[b] Nominal values for plot purposes only.

[c] Accumulated deficit restated in this year due to prior year adjustment resulting from a favourable court ruling on National Insurance contributions. ACGB+WAC special deficit grant of £100,000 also received.

[d] First year of consolidated accounts.

[e] Prior year adjustment in 1990 represents the effect of a change in accounting policy for costs of performances. Special deficit funding also received in this year.

Appendix 7-19 : Management control data - Opera North

MANAGEMENT CONTROL DATA : OPERA NORTH									
Source : Annual reports and accounts (1982-1997)									
YEAR	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**
	[c]	[d]						[e]	
DEFLATOR	1.66	1.56	1.51	1.43	1.39	1.33	1.27	1.17	1.07
Stated surplus / deficit in year [current]	-29,996	0	-97,416	-144,308	-51,486	64,694	70,077	-22,781	-380,220
Less above the line exceptional items [a]	0	0	0	0	0	0	0	0	0
Actual surplus / deficit in year [current]	-29,996	0	-97,416	-144,308	-51,486	64,694	70,077	-22,781	-380,220
Actual surplus / deficit in year [constant]	-49,793	0	-147,098	-206,360	-71,566	86,043	88,998	-26,654	-406,835
Turnover [current]	2,653,339	3,008,658	3,426,610	3,759,474	3,874,833	.4,071,553	4,534,480	5,109,063	5,718,067
Turnover [constant]	4,404,543	4,693,506	5,174,181	5,376,048	5,386,018	5,415,165	5,758,790	5,977,604	6,118,332
Actual surplus / deficit as % turnover [constant]	-1.13	0.00	-2.84	-3.84	-1.33	1.59	1.55	-0.45	-6.65
Year in which below the line deficit funding received [b]		0.00	-2.84						
Accumulated deficit [current]	-155,856	-55,852	-97,416	-241,724	-293,210	-228,516	-158,439	-81,220	-421,551
Accumulated deficit [constant]	-258,721	-87,129	-147,098	-345,665	-407,562	-303,926	-201,218	-95,027	-451,060
Year in which below the line deficit funding received [b]		-87,129	-147,098						

Notes: see end of table

Appendix 7-19 : Management control data - Opera North (continued)

MANAGEMENT CONTROL DATA : OPERA NORTH						
Source : Annual reports and accounts (1982-1997)						
YEAR	1991	1992	1993	1994	1995	1996
		[f]				
DEFLATOR	1.00	0.96	0.94	0.93	0.90	0.87
Stated surplus / deficit in year [current]	-318,488	222,863	33,508	-60,217	50,881	-57,988
Less above the line exceptional items [a]	0	0	0	0	0	0
Actual surplus / deficit in year [current]	-318,488	222,863	33,508	-60,217	50,881	-57,988
Actual surplus / deficit in year [constant]	-318,488	213,948	31,498	-56,002	45,793	-50,450
Turnover [current]	5,799,462	7,297,050	8,317,307	8,640,930	8,683,729	8,613,097
Turnover [constant]	5,799,462	7,005,168	7,818,269	8,036,065	7,815,356	7,493,394
Actual surplus / deficit as % turnover [constant]	-5.49	3.05	0.40	-0.70	0.59	-0.67
Year in which below the line deficit funding received [b]						
Accumulated deficit [current]	-700,039	-457,176	-423,668	-483,885	-433,004	-490,992
Accumulated deficit [constant]	-700,039	-438,889	-398,248	-450,013	-389,704	-427,163
Year in which below the line deficit funding received [b]						

Notes: see end of table

Appendix 7-19 : Management control data - Opera North (continued)

Notes :

[a] Exceptional items (of public source income) appearing before calculation of the current surplus / deficit in the income and expenditure account. That is, actual external cash injections from public sources as opposed to internal release of reserves. E.g. 1989 Business Sponsorship Incentive Scheme (£3,467) and Arts Council Incentive Grant (£520,000). However, since these public funds are tied to private source income performance, they have not been deducted.

[b] Nominal values for plot purposes only.

[c] Accumulated deficit in this year partly the result of development expenditure prior to incorporation and which is net of Arts Council grant.

[d] Arts Council supplementary grant : 1983 (£100,000), 1984 (£55,852).

[e] Arts Council Incentive funding : 1989 (£?), 1990 (£40,000), 1992 (£20,000).

[f] Surplus appears to be largely the result of increased public funding, though insufficient details are presented in the accounts to verify this.

Appendix 7-20 : Management control data - Glyndebourne Productions

MANAGEMENT CONTROL DATA :
GLYNDEBOURNE PRODUCTIONS
Source : Annual report and accounts (1972-1996)

[£] YEAR	1982	1983	1984	1985	1986	1987	1988	1989	1990
				[f]					[g]
DEFLATOR	1.66	1.56	1.51	1.43	1.39	1.33	1.27	1.17	1.07
Stated surplus / deficit in year [current]	124,955	8,870	66,637	-122,208	304,258	98,042	-2,168	310,801	538,684
Less above the line exceptional items [a]	0	0	0	0	0	0	0	0	0
Actual surplus / deficit in year [current]	124,955	8,870	66,637	-122,208	304,258	98,042	-2,168	310,801	538,684
Actual surplus / deficit in year [constant]	207,425	13,837	100,622	-174,757	422,919	130,396	-2,753	363,637	576,392
Turnover (excluding exceptional fundraising) [current] [c]	2,633,622	3,063,787	3,685,277	3,982,752	4,623,602	4,931,171	6,614,028	6,740,798	7,372,236
Turnover (excluding exceptional fundraising) [constant] [c]	4,371,813	4,779,508	5,564,768	5,695,335	6,426,807	6,558,457	8,399,816	7,886,734	7,888,293
Actual surplus / deficit as % turnover [constant] [c]	4.74	0.29	1.81	-3.07	6.58	1.99	-0.03	4.61	7.31
Year in which below the line deficit funding received [b]									
General reserve [current] [d]	409,258	418,128	484,765	362,557	666,815	586,021	583,853	894,654	933,338
General reserve [constant] [d]	679,368	652,280	731,995	518,457	926,873	779,408	741,493	1,046,745	998,672
Total reserves (general + building) [current] [e]	409,258	418,128	484,765	362,557	666,815	586,021	583,853	894,654	1,433,338
Total reserves (general + building) [constant] [e]	679,368	652,280	731,995	518,457	926,873	779,408	741,493	1,046,745	1,533,672
Year in which below the line deficit funding received [b]									

Notes: see end of table

MANAGEMENT CONTROL DATA : GLYNDEBOURNE PRODUCTIONS *Source : Annual report and accounts (1972-1996)*						
[£] YEAR	1991	1992	1993	1994	1995	1996
			[h]			
DEFLATOR	1	0.96	0.94	0.93	0.9	0.87
Stated surplus / deficit in year [current]	457,708	461,669	-1,904,899	4,397,111	1,742,924	1,385,020
Less above the line exceptional items [a]	0	0	0	0	0	0
Actual surplus / deficit in year [current]	457,708	461,669	-1,904,899	4,397,111	1,742,924	1,385,020
Actual surplus / deficit in year [constant]	457,708	443,202	-1,790,605	4,089,313	1,568,632	1,204,967
Turnover (excluding exceptional fundraising) [current] [c]	8,113,796	8,198,536	2,128,661	9,821,534	10,888,552	11,913,258
Turnover (excluding exceptional fundraising) [constant] [c]	8,113,796	7,870,595	2,000,941	9,134,027	9,799,697	10,364,534
Actual surplus / deficit as % turnover [constant] [c]	5.64	5.63	-89.49	44.77	16.01	11.63
Year in which below the line deficit funding received [b]						
General reserve [current] [d]	457,708	957,250	957,250	1,110,468	1,683,604	4,990,647
General reserve [constant] [d]	457,708	918,960	899,815	1,032,735	1,515,244	4,341,863
Total reserves (general + building) [current] [e]	10,944,484	18,372,344	29,393,439	35,080,125	36,822,427	38,207,447
Total reserves (general + building) [constant] [e]	10,944,484	17,637,450	27,629,833	32,624,516	33,140,184	33,240,479
Year in which below the line deficit funding received [b]						

Notes: see end of table

Appendix 7-20 : Management control data - Glyndebourne Productions (continued)

Notes :

[a] Exceptional items (of public source income) appearing before the calculation of the current surplus / deficit in the income and expenditure account. That is, actual external cash injections from public sources as opposed to internal release of reserves.

[b] Nominal values for plot purposes only.

[c] Turnover figure excludes fundraising income hypothecated for the rebuilding of the opera house in 1993-94.

[d] The general reserve here equates to the accumulated surplus / deficit figure of the public operation. Until 1990 it represents total capital plus reserves. After 1990, when the building reserve is opened, it is identified as the general reserve - see Note [g].

[e] Total reserves represent the sum of the general reserve and the building reserve. The building reserve represents the amount capitalised from the income and expenditure account for the purposes of rebuilding the Glyndebourne opera house 1993-94. The total reserves figure represents the balance sheet value of the company.

[f] In this year the current deficit was offset by release from reserves of £122,208 after calculation of the current deficit figure.

[g] Special building reserve opened. This reserve represents the amount capitalised from the income and expenditure account for the purposes of rebuilding the Glyndebourne opera house.

[h] Rebuilding of the Glyndebourne opera house took place in this year at an estimated cost of £33 million in current terms (met by charitable donations). The new house opened in May 1994.

Appendix 7-21 : Relationship between turnover and accumulated deficit - Scottish Opera

RELATIONSHIP BETWEEN TURNOVER AND ACCUMULATED DEFICIT : SCOTTISH OPERA				
YEAR	TURNOVER [CONSTANT] £	LINEAR TREND: TURNOVER [CONSTANT]	ACCUMULATED DEFICIT [CONSTANT] £	LINEAR TREND: ACCUMULATED DEFICIT [CONSTANT]
1977	6,530,448	6,388,095	-768,779	-589035
1978	6,215,530	6,334,231	-353,981	-567544
1979	6,084,515	6,280,367	-668,971	-546052
1980	6,301,508	6,226,502	-893,222	-524561
1981	6,384,475	6,172,638	-802,395	-503070
1982	5,992,849	6,118,774	-681,644	-481579
1983	6,076,178	6,064,910	-706,448	-460087
1984	7,364,040	7,050,141	15,426	57605
1985	6,676,065	7,041,730	-7,549	1882
1986	6,818,092	7,033,319	-36,820	-53841
1987	7,307,807	7,024,908	-34,121	-109563
1988	6,830,191	7,016,497	-163,681	-165286
1989	7,337,850	7,008,086	-218,400	-221009
1990	6,840,315	6,999,675	-321,797	-276732
1991	7,409,829	7,454,635	-676,159	-670062.0333
1992	7,687,817	7,598,207	-361,260	-373453.4533
1993	7,696,973	7,741,779	-82,942	-76844.8733
1994	7,557,527	7,626,379	8,764	-15290.365
1995	7,718,321	7,580,617	-115,120	-67010.53
1996	7,466,004	7,534,856	-94,676	-118730.695

Source : *See Appendices 7-2 and 7-15*

Appendix 7-22 : Opera board directors and other directorships

[Year] = latest available data where an incomplete declaration has been given in the sample year 1995
Name = Chairperson
Name = Vice-chairperson

ROYAL OPERA HOUSE, COVENT GARDEN : BOARD OF DIRECTORS 1995		
DIRECTOR	OCCUPATION	CURRENT DIRECTORSHIPS [ROH YEAR 1994/95]
Sir Angus Duncan Aeneas Stirling	Director General	Heritage Education Trust Heritage of London Trust Samuel Courtauld Trust (trustee)
Sir James Spooner	Director	Britel Fund Trustees Ltd Britel Fund Nominees Ltd Britel (MAM) Nominees Ltd The Folkestone Race Course Glanmoor Investments Ltd Cleveland Square Properties (London) Ltd Countryside Securities Ltd .Goldsmiths College Estates Ltd Pytchley House Estates Ltd Hemming Publishing Ltd Mabbiridge Ltd The Morgan Crucible Company plc ROH Pension Trust Ltd ROH Developments Ltd ROH Holdings Ltd ROH Management Ltd John Swire & Sons Ltd HJohn Swire & Sons Inc (USA) Swire Properties Ltd (Hong Kong) United States Cold Storage Inc (USA) Hermes Pension Management Ltd J Sainsbury plc New Telscheme Nominees Ltd
Sir John (Derek) Birkin	British Industrialist	Barclays plc Carlton Communications plc CRA Ltd (Australia) The Merchants Trust plc Merck & CO Inc (USA) The RTZ Corporation plc Unilever plc
Baroness Blackstone of Stoke Newington	College Principal	Institute for Public Policy Research Architecture Foundation Ditchley Foundation Committee of Vice-Chancellors & Principals: UK Universities
Percy (James) Butler CBE	Chartered Accountant	Camelot Group plc Wadworth Co Ltd British Rail European Passenger Services Union Railways Ltd
Vivien Louise Duffield CBE	Company Director	Childrens Museum Eureka
Bamber Gascoigne	Author & Broadcaster	National Gallery Publications Ltd
Robert Gavron CBE	Company Chairman	The Folio Society Ltd Open College of the Arts (trustee) Paul Hamlyn Foundation (trustee) IPPR (trustee & treasurer) St Ives plc National Gallery (trustee) National Gallery Publications Ltd
Jeremy Israel Isaacs	General Director	Jeremy Isaacs Productions
Christopher Lowe	Headmaster	None
Lady Deborah Millicent MacMillan	Artist & Sole Trader	American Ballet Theatre Creative Dance Artists Trust

Sir John Manduell CBE	College Principal	Royal Northern College of Music (principal) North West Arts Board Cheltenham Arts Festivals Ltd Associated Board - Royal Schools of Music Ltd Lake District Summer Music Ltd London International String Quartet Competition Purcell Tercentenary Trust Countess of Munster Trust Halle Concerts Society University of Manchester (member of court)
Sir Christopher (Kit) McMahon	Company Director	Aegis Group plc Angela Flowers Gallery plc Coutts Consulting Group plc Taylor Woodrow plc Magdalen College Companies FI Group plc
Andrew Tuckey	Merchant Banker	Baring Capital Investors Ltd Dillon Read (Holding) Ltd Sanwa Financial Services Ltd
TOTAL DIRECTORS = 14		[taking account of appointments and resignations]

ENGLISH NATIONAL OPERA : BOARD OF DIRECTORS 1995		
DIRECTOR	OCCUPATION	CURRENT DIRECTORSHIPS [ENO YEAR 1994/95]
The Rt Hon the Earl of Harewood KBE	Peer of the Realm \ Company Director	Historic Masters Ltd [Latest data = 1992] Opera North Ltd Opera da Camera Ltd Sports Aid Foundation Ltd Harewood House Trading Ltd Harewood Property Company Ltd Countrywide Holidays Association Opera Factory London Sinfonietta Leeds Festival
Sir Nicholas Proctor Goodison	Company Director	Three Copthall Avenue Ltd [Latest data = 1994] British Steel plc Burlington Magazine Publication Ltd General Accident, Fire & Life Assurance Co Harewood House Trust Ltd The Industrial Society Samuel Courtauld Trust TSB Bank plc TSB Group plc TSB Hill Samuel Bank Holding Company plc
Charles Edward Alexander	Company Director	NM Rothschild & Sons Ltd [Latest data = 1994] BICE Chileconsult Ltda BICE SA NC Chile SA Rothschild Italia SpA Rothschild Espana SA Rothschild Portugal The Five Arrows Chile Fund
Richard Van Allen	Opera Singer	Declaration ommitted
John William Baker	Company Director	The Electricity Association [Latest data = 1994] The London Business School SANE The Groundwork Foundation Royal Insurance plc
John Robert Sotheby Boas	Company Director	SG Warburg & Co Ltd [Latest data = 1994] Chesterfield Properties plc The Securities & Futures Authority Ltd Donmar Warehouse Projects Ltd

Paul Boateng MP	MP & Barrister at Law	City in Schools [Latest data = 1994]
Sir Rodric Quentin Braithwaite GCMG	Senior Adviser, Morgan Grenfell Group	None [Latest data = 1994]
Roger John Lawrence Bramble MA DL	Company Chairman	Blue Car Holidays Ltd [Latest data = 1994] Paris Travel Servie Ltd Swiss Travel Service Ltd London Tours & Travel Service Ltd Bridge Travel Service Ltd Amsterdam Travel Service Ltd Bankers Insurance Co Ltd Walkclose Ltd Tourauto Ltd Sun International (UK) Ltd Sun Air City of Westminster Trust Lord Dunleath 1964 Settlement Lord Hindlip's Childrens' Settlement The Benesh Institute of Choreology Ltd London Festival Ballet Trust Ltd (now English Nat. Ballet) The Serpentine Gallery CIAR (Milan) Lyceum Theatre Dance House Project Co Ltd BDB Ltd Covent Garden Festival City of Westminster Arts Council
Sir Anthony Brian Cleaver	Chairman [Latest data = 1994]	UK Centre for Economic & Environmental Development Business in the Community General Accident, Fire & Life Assurance Co plc Association for Business Sponsorship of the Arts Ltd Smith & Nephew plc Loral ASIC General Cable
Dr Johnson (David) Cohen	General Medical Practitioner	Investment Surveys Ltd [Latest data = 1994] London Sinfonietta English Touring Opera Opera Factory Friends of English National Opera
Mrs Donatella Flick	Company Director	[Declaration not located]
Mrs M Robin Hambro	Consultant	None [latest declaration = 1993]
The Rt Hon David Mellor QC MP	Member of Parliament	Abela Holdings UK Ltd [Latest data = 1992]
Ronald H Peet CBE	Retired	The Heritage of London Trust Ltd [Latest data = 1993] Amec plc Amec Executive Pensions Trustee Ltd Amec Staff Pensions Trustee Ltd New Scotland Insurance Group plc
John Tusa	Chairman London News Radio	BBC MPM Trust Political Quarterly Publication Co Thomson Foundation Wigmore Trust
Lord Arthur George Wiedenfeld	Publisher [Latest data =1994]	Weidenfield & Nicholson Ltd Global Asset Management Ltd South Bank Corporation Great Universal Stores Europe AG Orion Publishing Group
Shaun Anthony Wood Woodward	Communications Consultant	Vanderbilt Racquet Club
TOTAL DIRECTORS = 18		[taking account of appointments and resignations]

WELSH NATIONAL OPERA : BOARD OF DIRECTORS 1995		
DIRECTOR	**OCCUPATION**	**CURRENT DIRECTORSHIPS [WNO YEAR 1994/95]**
The Rt Hon The Lord	Company Director	EOBC Ltd

Davies of Llandidnam		Llandidnam Developments Ltd Wales Millenium Centre
Ms E Bennett	-	-
The Lady Crickhowell	-	-
Councillor Frederick AJ Emery-Wallis DL FSA	County Councillor	Southern Tourist Board New Theatre Royal Portsmouth Trustees Ltd
Ms JK Foster	-	-
Mr JRP Hammond	-	-
Mr Bernt HR Hudson Davies CVO	Company Director	The Wigmore Hall Trust Ltd The Award Scheme Ltd Cardiff Bay Arts Trust Ltd The Outward Bound Trust Ltd Outward Bound Human Resources Ltd Cardiff Bay Development Corporation Duke of Edinburgh's Award Duke of Edinburgh's International Foundation National Lottery Advisory Board for Wales
Mr William E Husselby DL	Company Chairman	Arm Communications Ltd Cogent Elliot Group Ltd Cogent Elliot Investments Ltd Cogent Elliot Public Relations Ltd Cogent Services Ltd The Creative Company Ltd Drury Lane Services Ltd Drury Lane Studios Ltd Lobelia Investment Co Ltd Broadway Estates (Warwickshire) Ltd J & BH Investments PHD Compass Ltd
Sir Geoffrey Inkin OBE DL	-	-
Mr Richard T Johnson	Solicitor	Southmead Health Services NHS Trust Colston Collegiate School Governors Ltd The Little Ann Property Co Ltd Brandon Hire PLC Arnolfini Gallery Ltd Colston Research Society
Dr CG Jones	-	-
Dr RH Jones CVO	-	-
Mrs Christine E Lewis	Retail Consultant	Development Board for Rural Wales Health Promotion Wales BBC Broadcasting Council for Wales Committee of the National Trust for Wales
Professor Anthony PL Minford	Professor of Economics	None
Mrs ME Moreland MBE	Retired	None
Councillor HJ Morgan	-	-
Mr Peter S Phillips	Chartered Accountant	Aspinwall Co Ltd Aspinwall Asia Ltd City of Birmingham Touring Opera Ltd
Dr A Robinson	-	-
Mr D Sandbach	-	-
Mr David J Seligman	Solicitor	St David Hall Trust Ltd Cardiff Old Library Trust Ltd
Mr G Stanley Jones CBE	-	-
Sir John Tooley	Arts Consultant	Tooley International Ltd Almeida Theatre Compton Verney Opera Project Opera London South Bank

Appendix 7-22 : Opera board directors and other directorships (continued)

		Britten Estate Britten Pears Foundation Dartington Summer School Friends of Covent Garden Purcell Tercentenary Trust Wigmore Hall Walton Trust Performing Arts Labs Royal Ballet Governors Nolan Trust
Mr RC Turton	-	-
Sir Donald Walters	Company director	Wales Council for Voluntary Action Reclear Residents Association Ltd Institute of Welsh Affiars Day Break (Wales) Ltd Llandough Hospital & Community NHS Trust University of Wales, Cardiff Institute of Materials Management Library Information Plan - Wales Howell's School, Cardiff Institute of Directors Development Board for Rural Wales British Council
Mr DL Williams	-	-
The Lady Young of Graffham	Director	None
TOTAL DIRECTORS = 24		[taking account of appointments and resignations]

SCOTTISH OPERA : BOARD OF DIRECTORS 1995		
DIRECTOR	**OCCUPATION**	**CURRENT DIRECTORSHIPS [SO YEAR 1994/95]**
Sandy Orr	Lawyer	Caledonian Bank PLC [Latest data = 1993] Caledonian Brewing Co Ltd Edinburgh Assets Ltd Macdonald Motels Ltd
Sir Robert Calderwood	Lawyer / Local Govt. Officer	GEC Scotland Ltd [Latest data = 1993] Strathclyde Buses Ltd
Lady Jennifer Balfour of Burleigh	Arts consultant	Jamaica Street Ltd Link Housing Ltd ECAT Contemporary Music Ltd
Lady Marion A Fraser	Housewife	Royal Scottish Academy [Latest data = 1993] Laurel Bank School Royal Glasgow Institute of Fine Art
Steven F Hamilton CB	Retired	None [Latest data = 1992]
Carol Hogel	Electrical & wholesale distribution	Queens Hall Queens Hall Catering Ltd Taylem Dunard Ltd Newbury Investments UK
Ian J Irvine	Chartered accountant	Glasgow Development Agency [Latest data = 1993] Royal Scottish National Orchestra Society Ltd
Richard Jarman	General Driector	
Professor Gavin McCrone	Lecturer / Professor	None
Dr Christopher Masters	Chief executive	Christan Salvesen PLC British Assets Trust Scottish Widows Scottish Chamber Orchestra Young Enterprise Scotland
Mary Moreland	None stated	None
Brian Nicolls	Business consultant	Scottish Council for Development & Industry
Mary Picken	-	-

Peter (Hugh Ll?) Runciman CBE	Company director	Colvilles Clugston Shanks Ltd [Latest data = 1993] Colvilles Clugston Shanks (Holdings) Ltd Clydesdale Excavating & Construction Co Ltd The Scottish National Trust PLC British Steel PLC The Scottish Eastern Investment Trust PLC
TOTAL DIRECTORS = 14		[taking account of appointments and resignations]

OPERA NORTH : BOARD OF DIRECTORS 1995		
DIRECTOR	OCCUPATION	CURRENT DIRECTORSHIPS [ON YEAR 1994/95]
Sir J Gordon Linacre	Company president	University of Leeds Foundation Harrogate Festival of the Arts & Sciences Ltd Reuters Founders Share Co Ltd Camelon TV Ltd
George HH Lascelles, The Earl of Harewood	Peer of the Realm	English National Opera Historic Masters Ltd Sports Aid Foundation Ltd Countrywide Holidays Association Harewood House Trading Ltd Harewood Property Co Ltd Opera Factory Lottery Promotions Co
WN Adsetts	[Declaration ommitted]	[Declataion ommitted]
Councillor Bernhard Peter Atha	Chairman of Leeds Cult Services Committee	Red Ladder Theatre Co Ltd Roberts Funeral Directors Ltd Leeds Funeral Service Ltd Armley & Wortley Funeral Services Ltd Leeds Grands Theatre Trust Co Ltd Leeds Theatre Trust Sports Aid Foundation (Yorks & Humberside) Ltd Sports Aid Foundation Ltd Leeds Industrial Co-operative Society Craft Centre & Design Gallery Ltd Yorkshire Dance Centre Ltd British Paralympics Association Ltd British Paralympics Enterprises Ltd CM Watson Ltd Yorkshire & Humberside Regional Arts Board The Leeds Funeral Advice Centre Ltd Northern Ballet Theatre West Yorkshire Playhouse (Enterprises Ltd) John Holt (Leeds) Ltd St James Hospital Trust
Michael Beverley	Chartered accountant	Ebor Homes Ltd Consort Homes Ltd
Mathew PD Bullock	Bank executive	BZW Ltd BZW Debt Capital Markets Ltd
Rosalind EJ Gilmore	Director of regulation, Lloyds of London	Securities and Investments Board Moorfields Eye Hospital Trust
John A Graham	Chief executive	Trustee South African Advanced Education Project Calderdale & Kirklees Tec Ltd Batley Action Ltd West Central Halifax Ltd Yorkshire Youth & Music Huddersfield Contemporary Music Festival Ltd
John Gunnell	Member of Parliament	Yorkshire Enterprise Ltd Yorkshire Fund Managers Ltd Capital Prime Properties plc Capital Prime Properties Plus plc Capital Prime Properties Plus 11 plc National Coal Mining Museum

Appendix 7-22 : Opera board directors and other directorships (continued)

Councillor CA Heinitz	[Declaration ommitted]	Declaration ommitted
Penelope J Hemming	Regional Director CBI	Yorkshire & Humberside Tourist Board
Clive W Leach	Director	Training & Enterprise National Council Leeds Training & Enterprise Council Ltd Yorkshire Enterprise Ltd Yorkshire Fund Managers Ltd
Sir Tom McDonald	Chartered accountant	None
Ms Sally C Neocosmos	University secretary	Collegiate Properties (2) Ltd
Professor George Pratt	Professor of Music	Huddersfield Contemporary Music Festival Ltd Trinity College of Music
Geoffrey A Shindler	Solicitor	Circular Press Ltd HL Nominees Ltd Amos Nelson Ltd Halliwells Roach Packing Case & Timber Co Ltd Halliwell Landau Pension Trust Ltd
Peter N Sparling	Solicitor	Leeds Theatre Trust Ltd Leeds Grammar School (Builders) Ltd Homeowners Friendly Society Ltd Homeowners Pensions Ltd
TOTAL DIRECTORS = 15		[taking account of appointments and resignations]

GLYNDEBOURNE PRODUCTIONS [GFT+GTO] : BOARD OF DIRECTORS 1995		
DIRECTOR	**OCCUPATION**	**CURRENT DIRECTORSHIPS [GP YEAR 1994/95]**
Sir George Christie	Company Director	John Christie Ltd NDCI Ltd East Sussex Electric Ltd Hill, Norman & Beard Ltd Christie Management Ltd Ringmer Motor Works Ltd George Stone Hastings Ltd Savoy Group plc Rothschild Trust Corporation
Mr John C Botts	Company Director	Botts & Co Ltd Balmuir Holdings Ltd The First Ireland Investment Co plc Balmuir Nominees Ltd Balmuir Properties Ltd Glyndebourne Arts Trust (trustee) Parkside Development Co Ltd Euromoney Publications plc Balmuir Property Co Ltd Woodbridge House (1994) Ltd Botts Capital Managers Ltd Asquith Court Holdings Ltd
Mr Augustus J Christie	Zoologist & Film [sic]	None
Mr David J Davies	Company Chairman	Johnson Mattey plc Sketchley plc Imry Holdings Ltd Cookson Mattney Ceramics plc John Armit Wines Ltd Prince of Wales Business Leaders Forum
The Hon Mrs Julian Fane	Company Director	None
Mr Peter Baring	Merchant Banker	Runciman (Trustees) Ltd Glyndebourne Arts Trust
TOTAL DIRECTORS = 6		[taking account of appointments and resignations]

Sources : *ROH ARA 1993-95, ENO ARA 1993-95, WNO ARA 1993-95, SO ARA 1993-95, ON ARA 1993-95, GP ARA 1993-95.*